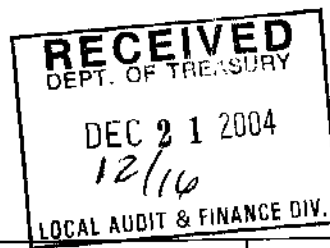


CITY OF HANCOCK
FINANCIAL STATEMENTS WITH
SUPPLEMENTAL INFORMATION

June 30, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.



Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF HANCOCK	County HOUGHTON
Audit Date 6/30/04	Opinion Date 9/24/04	Date Accountant Report Submitted to State: 12/16/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).			✓

Certified Public Accountant (Firm Name) BRUCE A. RUKKILA, CPA, PC			
Street Address 310 SHELLEN AVENUE	City HOUGHTON	State MI	ZIP 49931-0541
Accountant Signature <i>Debbie Bradford</i>		Date 12/16/04	

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the City Council
City of Hancock
Hancock, Michigan

We have audited the accompanying general purpose financial statements of the City of Hancock as of June 30, 2004, and for the year then ended. These general purpose financial statements are the responsibility of the City of Hancock's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The City has not adopted the reporting format of Government Accounting Standards Board Statement No. 34.

In our opinion, except for the effects on the general purpose financial statements of the omission described in the preceding paragraph, the dollar amount of which we have not determined, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Hancock, as of June 30, 2004, and the results of its operations and cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2004 on our consideration of the City of Hancock's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements of the City of Hancock, taken as a whole. The combining and individual fund financial statements listed in the table of contents are presented as supplemental information and are not a required part of the general purpose financial statements of the City of Hancock. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, except for the effects on the financial statements of the omissions described previously, the dollar amount of which we have not determined, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

September 24, 2004



Bruce A Rukkila, CPA, PC

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for the Western Upper Peninsula

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and Members of the City Council
City of Hancock
Hancock, Michigan

We have audited the financial statements of the City of Hancock as of and for the year ended June 30, 2004, and have issued our report thereon dated September 24, 2004. We conducted our audit in accordance with auditing standards and the standards generally accepted in the United States of America applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Hancock's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Hancock's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Bruce A. Rukkila, C.P.A., P.C.

Certified Public Accountants

September 24, 2004

CITY OF HANCOCK
COMBINED BALANCE SHEETS
ALL FUND TYPES AND ACCOUNT GROUPS
June 30, 2004

	Governmental Fund Types				Proprietary Fund Types	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
ASSETS AND OTHER DEBITS:						
Cash and equivalents:						
Unrestricted	\$ 44,768	\$ 41,354	\$ -	\$ 22,653	\$ 60,942	\$ 16,583
Restricted	66,032	-	7,741	-	85,573	5,452
Investments:						
Unrestricted	50,037	-	-	-	42,253	-
Restricted	-	-	-	-	176,141	-
Receivables:						
Delinquent taxes	4,062	45	-	-	-	-
Service customers	14,167	-	-	-	93,561	-
Other	35,909	-	-	-	388	10,715
Due from other funds	306,175	84,013	-	-	23,899	256,544
Inventory	6,159	-	-	-	69,476	12,432
Prepaid expenses	58,345	6,867	-	-	14,370	60,682
Property, plant and equipment	-	-	-	-	11,558,894	1,665,817
Accumulated depreciation & amortization	-	-	-	-	(7,284,268)	(1,450,624)
Due from other governmental units	133,567	106,377	-	-	13,252	-
Amt to be provided for general Long-term debt	-	-	-	-	-	-
TOTAL ASSETS AND OTHER DEBITS	\$ 719,221	\$ 238,656	\$ 7,741	\$ 52,353	\$ 4,854,481	\$ 577,601
LIABILITIES:						
Accounts payable	\$ 77,900	\$ 7,267	\$ -	\$ 50	\$ 6,917	\$ 31,747
Accrued expenses	33,015	8,079	-	-	10,350	160,165
Due to other funds	88,608	146,038	-	46,979	387,790	-
Due to other governmental units	-	-	-	-	58,568	-
Current maturities on Long-term debt	-	-	-	-	24,000	95,418
Notes payable	-	-	-	-	-	45,011
General obligation bonds	-	-	-	-	-	-
Revenue bonds payable	-	-	-	-	1,720,562	-
TOTAL LIABILITIES	199,523	161,384	-	47,029	2,208,187	332,341
FUND EQUITY AND OTHER CREDITS:						
Contributed capital	-	-	-	-	1,923,164	-
Fund balance:						
Investment in general fixed assets	-	-	-	-	-	-
Designated	-	10,242	-	-	-	-
Reserved	-	-	7,741	-	-	-
Unreserved	519,698	67,030	-	5,324	-	-
Retained earnings	-	-	-	-	723,130	245,260
TOTAL FUND EQUITY AND OTHER CREDITS	519,698	77,272	7,741	5,324	2,646,294	245,260
TOTAL LIABILITIES, FUND EQUITY AND OTHER CREDITS	\$ 719,221	\$ 238,656	\$ 7,741	\$ 52,353	\$ 4,854,481	\$ 577,601

The accompanying notes to financial statements are an integral part of this statement.

Fiduciary Fund Type	Account Groups		Component Units	Totals (Memorandum Only)	
	General Fixed Assets	General Long-Term Obligations		2004	2003
Trust and Agency					
\$ 68,711	\$ -	\$ -	\$ 255,011	\$ 99,897	\$ 354,908
-	-	-	164,798	-	160,331
-	-	-	92,290	-	92,290
83,244	-	-	259,385	-	246,779
-	-	-	4,107	22,109	26,216
-	-	-	107,728	-	107,728
-	-	-	76,712	-	76,712
-	-	-	670,631	-	670,631
-	-	-	88,067	-	88,067
-	-	-	140,264	682	140,946
-	3,869,082	-	17,093,793	114,288	17,208,081
-	-	-	(8,734,892)	-	(8,734,892)
-	-	-	253,196	-	253,196
-	-	1,662,325	1,662,325	5,027	1,667,352
\$ 151,955	\$ 3,869,082	\$ 1,662,325	\$ 12,133,415	\$ 242,003	\$ 12,375,418
\$ 28	\$ -	\$ -	\$ 123,909	\$ 2,972	\$ 126,881
-	-	176,289	387,898	-	387,898
-	-	-	669,415	1,216	670,631
1,572	-	-	60,140	-	60,140
-	-	-	119,418	-	119,418
-	-	-	45,011	5,027	50,038
-	-	1,486,036	1,486,036	-	1,486,036
-	-	-	1,720,562	-	1,720,562
1,600	-	1,662,325	4,612,389	9,215	4,621,604
-	-	-	1,923,164	-	1,923,164
-	3,869,082	-	3,869,082	114,288	3,983,370
-	-	-	10,242	-	10,242
150,355	-	-	158,096	-	158,096
-	-	-	592,052	118,500	710,552
-	-	-	968,390	-	968,390
150,355	3,869,082	-	7,521,026	232,788	7,753,814
\$ 151,955	\$ 3,869,082	\$ 1,662,325	\$ 12,133,415	\$ 242,003	\$ 12,375,418
					\$ 12,152,044

CITY OF HANCOCK
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
Year Ended June 30, 2004

	Governmental Fund Types				Totals (Memorandum Only)	Component Units	Totals (Memorandum Only)	
	General	Special Revenue	Debt Service	Capital Projects	Primary Government		2004	2003
REVENUES:								
Taxes	\$ 809,216	\$ 119,364	\$ -	\$ -	\$ 928,580	\$ 75,705	\$ 1,004,285	\$ 946,318
State and federal	596,355	621,320	-	-	1,217,675	-	1,217,675	1,557,505
Service fee revenue	342,952	-	-	-	342,952	-	342,952	334,334
Fines, forfeitures and penalties	30,447	-	-	-	30,447	-	30,447	-
Interest revenue	-	400	-	-	400	-	400	385
Rentals	13,101	-	99,570	-	112,671	1,440	114,111	118,281
Other revenue	99,534	31,463	-	52,718	183,715	1,051	184,766	198,561
Gain on sale of assets	-	-	-	-	-	129,985	129,985	-
TOTAL REVENUES	1,891,605	772,547	99,570	52,718	2,816,440	208,181	3,024,621	3,155,384
EXPENDITURES:								
General government administration	284,555	39,109	-	3,135	326,799	70,961	397,760	417,028
Construction	-	-	-	57,595	57,595	-	57,595	63,229
Public safety	669,155	-	-	-	669,155	-	669,155	602,766
Public works	194,344	-	-	-	194,344	-	194,344	155,167
Highways and streets	-	771,930	-	-	771,930	-	771,930	694,018
Sanitation	265,098	-	-	-	265,098	-	265,098	261,110
Culture and recreation	132,921	-	-	-	132,921	-	132,921	165,159
Waterfront road/walkway	-	-	-	-	-	57,084	57,084	43,048
Debt service	20,480	-	99,532	-	120,012	-	120,012	120,356
State grant expenditures	-	124,004	-	-	124,004	-	124,004	398,733
Other	64,825	-	-	-	64,825	-	64,825	60,353
TOTAL EXPENDITURES	1,631,378	935,043	99,532	60,730	2,726,683	128,045	2,854,728	2,980,967
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	260,227	(162,496)	38	(8,012)	89,757	80,136	169,893	174,417
OTHER FINANCING SOURCES (USES):								
Operating transfers in	-	119,675	-	-	119,675	-	119,675	190,255
Operating transfers out	(121,250)	(19,675)	-	-	(140,925)	-	(140,925)	(183,643)
TOTAL OTHER FINANCING SOURCES (USES)	(121,250)	100,000	-	-	(21,250)	-	(21,250)	6,612
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	138,977	(62,496)	38	(8,012)	68,507	80,136	148,643	181,029
FUND BALANCE, BEGINNING OF YEAR	380,721	139,768	7,703	13,336	541,528	152,652	694,180	528,152
FUND BALANCE, END OF YEAR	\$ 519,698	\$ 77,272	\$ 7,741	\$ 5,324	\$ 610,035	\$ 232,788	\$ 842,823	\$ 709,181

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HANCOCK
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL, SPECIAL REVENUE, DEBT SERVICE, AND CAPITAL PROJECTS FUNDS
Year Ended June 30, 2004

	General			Special Revenue		
	Budget	Actual	Variance- Favorable (Unfavorable)	Budget	Actual	Variance- Favorable (Unfavorable)
REVENUES:						
Taxes	\$ 867,784	\$ 809,216	\$ (58,568)	\$ 96,800	\$ 119,364	\$ 22,564
State and federal	612,174	596,355	(15,819)	598,794	621,320	22,526
Sale of lots	348,183	342,952	(5,231)	-	-	-
Fines, forfeitures and penalties	-	30,447	30,447	-	-	-
Interest revenue	-	-	-	475	400	(75)
Rentals	15,368	13,101	(2,267)	-	-	-
Other revenue	91,810	99,534	7,724	104,025	31,463	(72,562)
TOTAL REVENUES	1,935,319	1,891,605	(43,714)	800,094	772,547	(27,547)
EXPENDITURES:						
General government administration	340,807	284,555	56,252	41,625	39,109	2,516
Construction	-	-	-	-	-	-
Public safety	674,946	669,155	5,791	-	-	-
Public works	184,651	194,344	(9,693)	-	-	-
Highways and streets	-	-	-	824,126	771,930	52,196
Sanitation	280,114	265,098	15,016	-	-	-
Culture and recreation	138,315	132,921	5,394	-	-	-
Debt service	20,525	20,480	45	-	-	-
State grant expenditures	-	-	-	102,000	124,004	(22,004)
Other	68,329	64,825	3,504	-	-	-
TOTAL EXPENDITURES	1,707,687	1,631,378	76,309	967,751	935,043	32,708
EXCESS(DEFICIENCY)OF REVENUES OVER EXPENDITURES	227,632	260,227	32,595	(167,657)	(162,496)	5,162
OTHER FINANCING SOURCES (USES):						
Operating transfers in	-	-	-	119,675	119,675	-
Operating transfers out	(121,250)	(121,250)	-	(19,675)	(19,675)	-
TOTAL OTHER FINANCING SOURCES (USES)	(121,250)	(121,250)	-	100,000	100,000	-
EXCESS(DEFICIENCY)OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ 106,382	138,977	\$ 32,595	\$ (67,657)	(62,496)	\$ 5,161
FUND BALANCE, BEGINNING OF YEAR		380,721			139,768	
FUND BALANCE(DEFICIT), END OF YEAR		\$ 519,698			\$ 77,272	

The accompanying notes to financial statements are an integral part of this statement.

Debt Service			Capital Projects		
Budget	Actual	Variance- Favorable (Unfavorable)	Budget	Actual	Variance- Favorable (Unfavorable)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
99,650	99,570	(80)	-	-	-
-	-	-	23,526	52,718	29,192
99,650	99,570	(80)	23,526	52,718	29,192
-	-	-	3,500	3,135	365
-	-	-	61,485	57,595	3,890
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
99,600	99,532	68	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
99,600	99,532	68	64,985	60,730	4,255
50	38	(12)	(41,459)	(8,012)	33,447
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
\$ 50	38	\$ (12)	\$ (41,459)	(8,012)	\$ 33,447
	7,703			13,336	
	\$ 7,741			\$ 5,324	

CITY OF HANCOCK
COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN
RETAINED EARNINGS - ALL PROPRIETARY FUND TYPES

Year Ended June 30, 2004

	Proprietary Fund Types		Fiduciary Fund Type	Blended Totals (Memorandum Only)	
	Enterprise	Internal Service	Non- Expendable Trust	2004	2003
OPERATING REVENUES:					
Charges for services	\$ 1,199,377	\$ 1,308,451	\$ -	\$ 2,507,828	\$ 2,337,847
State Grant	84,543	-	-	84,543	130,648
Other revenue	119,783	3,737	1,425	124,945	54,807
TOTAL OPERATING REVENUES	1,403,703	1,312,188	1,425	2,717,316	2,523,302
EXPENSES:					
General government administration	147,375	28,520	-	175,895	206,174
Purchase of water	174,259	-	-	174,259	188,334
Garage maintenance	-	100,011	-	100,011	98,316
Operations and maintenance	453,682	199,953	-	653,635	626,035
City share of Ptg Lake W & S Auth plant exp	454,035	-	-	454,035	461,227
Depreciation	226,005	68,757	-	294,762	291,862
Benefit payments	-	823,615	-	823,615	699,962
TOTAL EXPENSES	1,455,356	1,220,856	-	2,676,212	2,571,910
OPERATING INCOME(LOSS)	(51,653)	91,332	1,425	41,104	(48,608)
NON-OPERATING REVENUES (EXPENSES):					
Gain on sale of assets	-	-	-	-	1,654
Interest income	7,917	465	2,897	11,279	18,734
Interest expense	(80,093)	(11,690)	-	(91,783)	(93,156)
Operating transfers in	21,250	-	-	21,250	35,000
Operating transfers out	-	-	-	-	(41,612)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(50,926)	(11,225)	2,897	(59,254)	(79,380)
NET INCOME(LOSS)	(102,579)	80,107	4,322	(18,150)	(127,988)
RETAINED EARNINGS/FUND BALANCE, BEGINNING OF YEAR	819,219	165,153	146,033	1,130,405	1,251,903
ADJUSTMENTS TO FUND EQUITY:					
Add depr on F/A acq w/contributed capital	6,490	-	-	6,490	6,490
RETAINED EARNINGS/FUND BALANCE, END OF YEAR	\$ 723,130	\$ 245,260	\$ 150,355	\$ 1,118,745	\$ 1,130,405

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HANCOCK
COMBINED STATEMENTS OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
Year Ended June 30, 2004

	Proprietary Fund Types		Fiduciary Fund Type	Totals
	Enterprise Funds	Internal Service Funds	Non Expendable Trust	(Memorandum Only)
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating income (loss)	\$ (51,653)	\$ 91,332	\$ 1,425	\$ 41,104
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	226,005	68,757	0	294,762
Operating transfers in (out)	21,250	0	0	21,250
Gain on sale of assets	0	0	0	0
(Increase) decrease in accounts receivable	(7,351)	(7,596)	0	(14,947)
(Increase) decrease in due from other funds	(23,899)	(99,231)	0	(123,130)
(Increase) decrease in due from other governmental units	(13,252)	35,500	0	(22,248)
(Increase) decrease in inventory	35,001	1,779	0	36,780
(Increase) decrease in prepaid expenses	(7,912)	(577)	0	(8,489)
Increase (decrease) in accounts payable	(56,494)	16,286	0	(40,208)
Increase (decrease) in accrued interest	2,854	14,219	0	17,073
Increase (decrease) in due to other funds	93,680	(42,231)	0	51,449
Increase (decrease) in due to other governmental units	(56,140)	0	1,363	(54,777)
NET CASH PROVIDED BY OPERATING ACTIVITIES	162,089	78,238	2,788	243,115
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(6,103)	0	(1,749)	(7,852)
Proceeds from sale of equipment	0	0	0	0
Purchase of equipment	(40,429)	(16,923)	0	(57,352)
Proceeds from sale of investments	0	0	0	0
Interest on investments	7,917	465	2,897	11,279
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(38,615)	(16,458)	1,148	(53,925)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Interest paid on long-term debt	(80,093)	(11,690)	0	(91,783)
Repayment of long-term debt	(29,000)	(40,639)	0	(69,639)
NET CASH PROVIDED BY FINANCING ACTIVITIES	(109,093)	(52,329)	0	(161,422)
NET INCREASE (DECREASE) IN CASH	14,381	9,451	3,936	26,405
CASH AT BEGINNING OF YEAR	132,134	12,584	64,775	209,493
CASH AT END OF YEAR	\$ 146,515	\$ 22,035	\$ 68,711	\$ 237,261

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

On November 10, 1987, the voters of the City of Hancock voted to establish a Charter Commission for the purpose of rewriting the City Charter that was adopted on July 13, 1982. A new City Charter was drafted by the Charter Commission and approved by the State of Michigan on November 16, 1987. On August 2, 1988, city voters approved the new charter, which changed the City's form of government to the City Council/Manager form.

The City provides services for public safety, public works, sanitation, recreation, and community development as authorized by its Charter.

The accounting policies of the City of Hancock conform to generally accepted accounting principles for local governmental units as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. The following is a summary of the more significant policies:

REPORTING ENTITY

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City of Hancock (the primary government) and its component unit. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City. The criteria and guidelines of the Governmental Accounting Standards Board Statement Number 14 *The Reporting Entity* are utilized to determine that all applicable entities are included in the combined financial statements of the City. The primary criterion for inclusion is the degree of oversight responsibility over such entities by the City's elected officials. This responsibility includes financial interdependency, selection of governing authority, selection of management, ability to significantly influence operations, and accountability for fiscal matters. Additional criteria that are considered even if there is no significant oversight responsibility are an entity's scope of public service and special financing relationships between a particular agency and the reporting entity.

The following organizations are not included in the reporting entity of the City:

HANCOCK HOUSING COMMISSION

The Hancock Housing Commission was formulated to construct and operate housing for low income families and senior citizens. The elements considered in the City's determination that the Hancock Housing Commission should not be included as part of the City's general purpose financial statements are as follows:

1. Neither the Council nor management of the City of Hancock is responsible for the designation of the Housing Commission management. Similarly, the City of Hancock does not approve Housing Commission budgets nor does it significantly influence operations.
2. The City of Hancock does not have significant fiscal management responsibilities; it is not responsible for funding or guaranteeing debt, nor does it have a right to receive surplus funds.
3. The City of Hancock provides no ongoing financial support to the Hancock Housing Commission, nor do any special financing relationships exist.
4. Residency in the housing complex is not limited to City residents.

CITY OF HANCOCK**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2004**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Audited financial information of the Hancock Housing Commission as of and for the year ended December 31, 2002 is as follows:

Total assets	<u>\$ 1,694,459</u>
Total liabilities	\$ 84,738
Total equity	1,609,721
Total liabilities and surplus	<u>\$ 1,694,459</u>
Operating income	\$ 629,135
Operating expenses	651,786
Net operating income	(22,651)
Net Non-operating revenues(expenses)	1,815
Net income	<u>\$ 20,836</u>

Portage Lake Water and Sewage Authority

On January 24, 1964, the City of Houghton and the City of Hancock executed a contract to jointly acquire, construct, equip, and operate a sewage treatment plant, including necessary intercepting sewers and appurtenances. Each municipality was to bear one-half of the cost of the sewage treatment plant, pumping stations, and necessary appurtenances and the full cost of its own intercepting sewers. Title to the sewage plant, including land and ownership shall be in the name of the authority whereas the ownership of the intercepting sewers, vests in the respective municipality. Funds for the construction of these facilities were provided by each municipality through the issuance and sale of general obligation bonds and grants totaling \$500,000 from the Federal government. By joint agreement, operating expenses incurred from the inception of operations to February 29, 1966, were shared equally, and for the balance of 1966 on the basis of two-thirds to the City of Houghton, and one-third to the City of Hancock. The contract provides for a joint board to control, manage, and operate the facility with each municipality to share the cost of operation, maintenance, and administration on the basis of relative usage as determined by metered services with 50 percent of the costs of capital expenditures to be paid by each municipality. On December 14, 1972, this agreement was amended to provide allocation of future capital expenditures on the basis of relative usage. The joint board consists of five members of which two are appointed by the respective City Councils and the fifth member appointed by the other four members.

The elements considered in the City's determination that the Portage Lake Water and Sewage Authority should not be included as a component unit of the City are as follows:

1. The City of Hancock is not responsible for the designation of the Authority's management.
2. The City does not approve the Authority's annual budget or budget amendments.
3. The City does not significantly influence operations.
4. The Cities each appoint two of the five members to the Authority's Board of Trustees.
5. The City does not have significant fiscal management responsibilities. It does not have a right to receive surplus funds, but is responsible for guaranteeing certain debt along with the City of Houghton.
6. The City provides no direct on-going financial support to the Water and Sewage Authority.
7. The City does not hold title to the physical assets of the Authority.

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A summary of the Authorities financial information for the year ended June 30, 2004 (most recent year audited) shows the following:

Total assets	\$25,804,795
Total liabilities	\$9,073,222
Total equity	\$16,011,573
Total revenues	\$1,366,545
Total expenditures	\$1,366,545
Long-term debt	\$8,610,774

Financial transactions between the City and the Authority, reported in the accompanying financial statements, constitute contractual agreements with the Authority for providing services to the City.

COMPONENT UNITS

In conformity with generally accepted accounting principles, the financial statements of component units, have been included in the financial reporting entity either as blended component units or as discretely presented component units.

DISCRETELY PRESENTED COMPONENT UNITS

The component units' columns in the combined financial statements include the financial data of the City's component unit, the Downtown Development Authority (DDA). This unit is reported in a separate column to emphasize that it is legally separate from the City. Complete financial statements of the DDA may be obtained from the City Clerks Office, 399 Quincy Street, Hancock, MI 49930.

BLENDED COMPONENT UNITS

City of Hancock Building Authority

The Authority is an entity legally separate from the City. The Authority is governed by a board appointed by the City and is reported as if it were part of the City's operations because its primary purpose is that of a financing vehicle for the construction of City facilities.

FUND ACCOUNTING

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity or retained earnings, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial report into three broad and seven generic fund types.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GOVERNMENTAL FUND TYPES

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The fund includes the general operating revenues and expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal resources, grants and other inter-governmental revenues.

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specific purposes.

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds, special assessment funds, or trust funds).

PROPRIETARY FUND TYPES

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Water Fund, Sewer Fund, Parking Fund, and Transit Fund are enterprise type funds.

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City or to other governments, on a cost reimbursement basis. The City's Motor Vehicle Fund and Employee Benefit Fund are Internal Service Type Funds.

FIDUCIARY FUND TYPES

Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

FIXED ASSETS AND LONG-TERM LIABILITIES

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. All governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on governmental fund balance sheets. This reported fund balance (net current assets) is considered a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financial sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed assets used in governmental fund type operations are accounted for in the General Fixed Assets Account Group, rather than in governmental funds.

Fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group, not in the governmental funds.

The General Fixed Assets Account Group and the General Long-Term Debt Account Group are not "funds." Their purpose is related only to the measurement of financial position. They are not involved with measurement of results of operations.

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or non-current) associated with an activity are included on their balance sheets. Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation is generally reflected over the estimated useful lives using the straight line method.

BASIS OF ACCOUNTING

The basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds, expendable trust funds, and agency funds are accounted for using the modified accrual basis of accounting. Under modified accrual, revenues are recognized when they become both measurable and available to finance expenditures of the current period. Significant revenues susceptible to accrual include property taxes, state and federal sources, and intergovernmental revenues. Other revenue sources, such as licenses, permits, charges for services, sales, fees, fines, rentals, and others are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings are not accrued in the governmental fund types or in Expendable Trust and Agency Funds. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred with certain exceptions such as interest on long-term debt which is generally recognized when due.

All proprietary funds, are accounted for using the full accrual basis of accounting. Under full accrual, revenues are recognized when earned, and expenses are recognized when incurred.

BUDGETARY DATA

Requirements for preparing the City's annual budget are outlined in the City Charter. Major procedures in preparing the annual budget are as follows:

1. On or before the 1st Monday in April of each year, the City Manager submits to the City Council an operating budget and capital improvement projections for the ensuing fiscal year.

CITY OF HANCOCK

NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. A public hearing on the budget is held not less than one week before the budget's final adoption at such time as the council shall direct.
3. On or before the last day in May, the Council, by resolution, adopts a budget for the ensuing fiscal year.
4. The City Council adopts the budget by activity categories generally the same as those presented in the combined financial statements. All budget amendments and transfers during the fiscal year are approved by the Council. The City Council has the authority to amend the budget when it becomes apparent that deviations in the original budget will occur and the amount of the deviation can be determined. The City maintains and monitors the budget on a line item basis for accounting control purposes. During the year ended June 30, 2004, the City's budget had been amended.
5. The City allows all unencumbered and unexpended appropriations to lapse at year end.

In accordance with the State of Michigan Budgeting and Accounting Act, the City must adopt an annual operating budget for the General and Special Revenue.

PROPERTY TAXES

Property taxes on tax roll properties attach as an enforceable lien on property as of December 31, are levied annually on July 1, and are due on August 10. A one percent (1%) penalty per month is added to the tax liability for taxes not paid by August 10.

The City bills and collects its own property taxes, and those of the local school district, the Intermediate School District, and County. Collections of other units' taxes and remittance of these collections are accounted for in the Trust and Agency Fund. City property tax revenues are recognized when levied to the extent that they result in current receivables.

INVENTORY

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory in the General Fund consists of expendable supplies. The individual inventory supplies are recorded as an asset when purchased.

DUE FROM AND TO OTHER FUNDS

During the fiscal year, the City had numerous transactions between funds to finance operations, provide services, construct assets and service debt. To the extent that certain transactions between funds had not been paid or received as of June 30, 2004, balances of inter-fund accounts receivable (due from) or payable (due to) have been recorded.

CITY OF HANCOCK

NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

TOTAL COLUMNS ON COMBINED STATEMENTS

The total columns on the combined statements are captioned Memorandum Only to indicate they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither are such data comparable to a consolidation. Consolidation requires that inter-fund eliminations be made in aggregation of these data.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

ENCUMBRANCES

Encumbrances are defined as commitments related to unperformed contracts for goods and services. The District does not record encumbrances in the normal course of operating its accounting system and none are recorded in the accompanying financial statements.

NOTE B - CASH AND INVESTMENTS

CASH DEPOSITS

At June 30, 2004, the book value of the City's demand deposits, consisting primarily of checking and savings accounts, certificates of deposit and other cash equivalents, was \$519,706 with a corresponding bank balance of \$604,256. Qualifying deposits are insured by the Federal Deposit Insurance Corporation up to \$100,000. Of the bank balance, approximately \$555,701 representing approximately 92% of the City's deposits, were covered by Federal Depository Insurance. Michigan law does not require collateralization of government deposits, therefore, only the \$555,701 was insured and \$48,507 was neither insured nor collateralized.

INVESTMENTS

The investment of the City's funds is governed by state statutes. In general, state statutes provide that the City is authorized to invest its funds in certificates of deposit, savings accounts, and deposit accounts in a bank which is a member of the Federal Deposit Insurance Corporation. In addition, it may also invest in bonds, securities and other obligations of the United States in which the principal and interest are fully guaranteed by the United States, and investments in commercial paper rated at prime at the time of purchase and which mature not more than 270 days after the date of purchase.

The investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

1. Insured or registered, or securities held by the entity or its agent in the entity's name.

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2004

NOTE B - CASH AND INVESTMENTS (Continued)

2. Uninsured and unregistered, with securities held by the counter-party's trust department or agent in the entity's name.
3. Uninsured and unregistered, with securities held by the counter-party or by its trust department or agent but not in the entity's name.

At June 30, 2004, the City's investments were as follows:

	Categories			Carrying Amount	Market Value
	1	2	3		
Short Term - U.S. Government Trust	\$ 0	\$ 292,504	\$ 0	\$ 292,504	\$292,504
Federal Home Loan Bank Note	0	59,700	0	59,700	59,170
Total	<u>\$ 0</u>	<u>\$ 352,204</u>	<u>\$ 0</u>	<u>\$ 352,204</u>	<u>\$351,674</u>

NOTE C - GENERAL FIXED ASSETS

A summary of the changes in general fixed assets is as follows:

	Balance 6/30/03	Additions	Subtractions	Balance 6/30/04
Land	\$ 375,612	\$ 14,414	\$ 0	\$ 390,026
Building and additions	2,224,051	0	0	2,224,051
Machinery and equipment	1,162,241	92,764	0	1,255,005
Fund Equity	<u>\$ 3,761,904</u>	<u>\$ 107,178</u>	<u>\$ 0</u>	<u>\$ 3,869,082</u>

NOTE D - PROPRIETARY FUNDS - PROPERTY, PLANT, AND EQUIPMENT

The components of property, plant, and equipment in City proprietary funds at June 30, 2004 are summarized as follows:

	Enterprise Funds	Internal Service Funds	Total
Land and Improvements	\$ 238,496	\$ 0	\$ 238,496
Utility Plant in Service	11,289,505	0	11,289,505
Equipment	30,893	1,665,817	1,696,710
Total	<u>11,558,894</u>	<u>1,665,817</u>	<u>13,224,711</u>
Allowances for Depreciation	(7,284,268)	(1,450,624)	(8,734,892)
Balance	<u>\$ 4,274,626</u>	<u>\$ 215,193</u>	<u>\$ 4,489,819</u>

Property, plant, and equipment are recorded at cost and accounted for in the proprietary funds. Depreciation on such assets is charged as an expense against the operations of the funds on a straight-line basis. Depreciation is based on the estimated useful lives of the assets using 3-10 years for equipment and 40-50 years for property and plant.

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2004

NOTE E - RESTRICTED ASSETS - PROPRIETARY FUNDS

Enterprise Funds: Certain proceeds from operations of the Water Supply System Fund and Sewer Disposal Fund are restricted for the payment of revenue and general obligation bonds and, accordingly, are recorded as restricted cash assets in the amount of \$261,714 as of June 30, 2004. Both the Water and Sewer Funds balance sheets have restricted cash in the amount of \$144,588 and \$117,126, respectively. Use of these restricted assets are limited by applicable bond indentures and ordinances.

Internal Service Funds: The Employee Benefit Fund has restricted assets of \$5,452 as of June 30, 2004.

NOTE F - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables at June 30, 2004 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	\$ 306,175	Transit	\$ 15,000
		Sewer Disposal	69,875
		Water Supply	202,300
		Capital Projects	19,000
Sub-Total	306,175	Sub-Total	306,175
Local Street	45,014	General	21,259
		Major Street	19,675
		Capital Projects	4,080
Sub-Total	45,014	Sub-Total	45,014
Elevation St - TIF	38,999	Water Supply	38,999
Sewer Disposal	14,289	Capital Projects	14,289
Water Supply	9,610	Capital Projects	9,610
Motor Vehicle	191,720	General	25,516
		Major Street	18,948
		Local Street	103,699
		Parking	8
		DDA	1,216
		Sewage Disposal	1,252
		Water Supply	41,081
Sub-Total	191,720	Sub-Total	191,720
Employee Benefit	64,824	General	41,833
		Local Street	3,716
		Parking	583
		Transit	18,692
Sub-Total	64,824	Sub-Total	64,824
TOTALS	\$ 670,631	TOTALS	\$ 670,631

CITY OF HANCOCK**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2004****NOTE G - ACCUMULATED UNPAID VACATION AND SICK LEAVE**

City employees generally earn sick leave at the rate of one day per month. Accumulated sick leave per employee cannot exceed ninety (90) days and is paid to union employees upon retirement or to beneficiaries in case of death. At termination, non-union employees receive 2/25 of their accumulated sick leave plus an additional 1/25 of that accumulation for each year of service until full accumulation is paid for 25 years of service or age 65. Vacation pay is accumulated annually based on length of service and must be used within one year.

Accumulated unpaid vacation and sick leave at June 30, 2004 was:

	Employee Benefit Fund	General Long-Term Debt Account Group	Total
Vacation	\$ 90,341	\$ 0	\$ 90,341
Sick Leave	59,824	176,289	236,113
TOTAL	<u>\$ 150,165</u>	<u>\$ 176,289</u>	<u>\$ 326,454</u>

Accrued vacation and sick leave have been recorded as an expense of the Employee Benefit Fund and a liability to the extent of the proprietary funds portion of the total. The portion associated with the Governmental Fund types have been recorded in the General Long-Term Debt group of accounts in accordance with generally accepted accounting principles.

NOTE H - LONG-TERM DEBT**GENERAL LONG-TERM DEBT ACCOUNT GROUP**

Fire Truck Note: On June 14, 1999 the City of Hancock entered into a \$123,426 loan contract with Superior National Bank for the purpose of purchasing a fire truck. The loan was financed at an interest rate of 4.98% per annum. Principal and interest amounts are payable August 1 in equal annual installments of \$20,479.

Year	Principal	Interest	Total
2004-05	\$ 18,553	\$ 1,926	\$ 20,479
2005-06	19,483	984	20,467
TOTALS	<u>\$ 38,036</u>	<u>\$ 2,910</u>	<u>\$ 40,946</u>

1997 Building Authority Bonds: On August 15, 1997, the City of Hancock Building Authority authorized the issuance of general obligation bonds in the amount of \$533,800 to fund the construction of a new fire hall. The bond was issued in a single denomination of \$533,800 at an interest rate not to exceed 5.0% per annum with principal amounts payable August 1 and interest payable semi-annually on February 1 and August 1.

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2004

NOTE H - LONG-TERM DEBT (Continued)

SCHEDULE OF 1997 BUILDING AUTHORITY BONDS

June 30, 2004			
Year	Principal	Interest	Total
2004-05	\$ 10,000	\$ 24,500	\$ 34,500
2005-06	10,000	24,000	34,000
2006-07	10,000	23,500	33,500
2007-08	10,000	23,000	33,000
2008-09	15,000	22,500	37,500
2009-10	15,000	21,875	36,875
2010-11	15,000	21,125	36,125
2011-12	15,000	20,375	35,375
2012-13	15,000	19,625	34,625
2013-14	15,000	18,875	33,875
2014-15	20,000	18,125	38,125
2015-16	20,000	17,250	37,250
2016-17	20,000	16,250	36,250
2017-18	20,000	15,250	35,250
2018-23	120,000	60,125	180,125
2023-28	155,000	28,250	183,250
TOTALS	\$ 485,000	\$ 374,625	\$ 859,625

1998 Building Authority Bonds: On March 19, 1998, the City of Hancock Building Authority authorized the issuance of general obligation bonds in the amount of \$1,048,000 to fund the construction of a new department of public works garage. The bond was issued in a single denomination of \$1,048,000 at an interest rate of 4.75% per annum with principal amounts payable April 1 and interest payable semi-annually on April 1 and October 1.

SCHEDULE OF 1998 BUILDING AUTHORITY BONDS

June 30, 2004			
Year	Principal	Interest	Total
2004-05	\$ 20,000	\$ 46,194	\$ 66,194
2005-06	21,000	45,268	66,268
2006-07	21,000	44,294	65,294
2007-08	23,000	43,296	66,296
2008-09	25,000	42,251	67,251
2009-10	26,000	41,111	67,111
2010-11	28,000	39,900	67,900
2011-12	29,000	38,618	67,618
2012-13	31,000	37,264	68,264
2013-14	32,000	35,839	67,839
2014-15	34,000	34,343	68,343
2015-16	36,000	32,775	68,775
2016-17	38,000	31,113	69,113
2017-18	41,000	29,355	70,355
2018-23	240,000	116,447	356,447
2023-28	318,000	55,813	373,813
TOTALS	\$ 963,000	\$ 713,881	\$ 1,676,881

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2004

NOTE H - LONG-TERM DEBT (Continued)

ENTERPRISE FUNDS

1997 Water Supply System Revenue Bond: On November 5, 1997, the City of Hancock authorized the sale of a Water Supply System Revenue Bond in the amount of \$1,320,000 for the purpose of constructing improvements to the City's water supply system. The bond was issued in a single denomination of \$1,320,000 at an interest rate of 4.5% per annum with principal amounts payable November 1 and interest payable semi-annually on November 1 and May 1.

Principal installments are subject to prepayment prior to maturity, in inverse chronological order, at the Issuer's option, on any interest payment date on or after November 1, 2001, at par plus accrued interest to the date fixed for prepayment.

SCHEDULE OF 1997 WATER SUPPLY SYSTEM REVENUE BONDS

June 30, 2004

Year	Principal	Interest	Total
2004-05	\$ 8,000	\$ 53,013	\$ 61,013
2005-06	9,000	52,540	61,540
2006-07	10,000	52,158	62,158
2007-08	18,000	51,730	69,730
2008-09	19,000	51,100	70,100
2009-10	20,000	50,268	70,268
2010-11	21,000	49,390	70,390
2011-12	22,000	48,468	70,468
2012-13	23,000	47,500	70,500
2013-14	24,000	46,488	70,488
2014-15	25,000	45,430	70,430
2015-16	26,000	44,328	70,328
2016-17	27,000	43,180	70,180
2017-18	29,000	41,988	70,988
2018-23	165,000	189,847	354,847
2023-28	210,000	149,750	359,750
2028-33	262,000	99,103	361,103
2033-38	253,562	35,889	289,451
TOTALS	<u>\$ 1,171,562</u>	<u>\$ 1,152,170</u>	<u>\$ 2,323,732</u>

1998 Water Supply System Revenue Bond: On October 20, 1998, the City of Hancock authorized the sale of a Water Supply System Revenue Bond in the amount of \$500,000 for the purpose of constructing a new water tower. The bond was issued in a single denomination of \$500,000 at an interest rate of 4.5% per annum with principal amounts payable May 1 and interest payable semi-annually on November 1 and May 1.

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2004

NOTE H - LONG-TERM DEBT (Continued)

SCHEDULE OF 1998 WATER SUPPLY SYSTEM REVENUE BONDS

June 30, 2004			
Year	Principal	Interest	Total
2004-05	\$ 6,000	\$ 21,060	\$ 27,060
2005-06	7,000	20,790	27,790
2006-07	7,000	20,475	27,475
2007-08	7,000	20,160	27,160
2008-09	7,000	19,845	26,845
2009-10	8,000	19,530	27,530
2010-11	8,000	19,170	27,170
2011-12	8,000	18,810	26,810
2012-13	9,000	18,450	27,450
2013-14	9,000	18,045	27,045
2014-15	10,000	17,640	27,640
2015-16	10,000	17,190	27,190
2016-17	10,000	16,740	26,740
2017-18	11,000	16,290	27,290
2018-23	59,000	73,890	132,890
2023-28	77,000	59,085	136,085
2028-33	95,000	40,275	135,275
2033-38	120,000	16,650	136,650
TOTALS	<u>\$ 468,000</u>	<u>\$ 454,095</u>	<u>\$ 922,095</u>

Sanitary Sewage Disposal System Revenue Bonds: On September 16, 1976, the City of Hancock authorized the sale of Sanitary Sewage Disposal System Revenue Bonds in the amount of \$290,000. The bonds were issued in denominations of \$5,000 at an interest rate of 5% per annum with principal amounts payable January 1 and interest payable semi-annually on July 1 and January 1.

Bonds are subject to redemption prior to maturity, in inverse numerical order, at the option of the City, at par plus accrued interest to the date fixed for redemption.

SCHEDULE OF SANITARY SEWAGE DISPOSAL SYSTEM REVENUE BONDS

June 30, 2004			
Year	Principal	Interest	Total
2004-05	\$ 10,000	\$ 5,250	\$ 15,250
2005-06	10,000	4,750	14,750
2006-07	10,000	4,250	14,250
2007-08	10,000	3,750	13,750
2008-09	10,000	3,250	13,250
2009-10	10,000	2,750	12,750
2010-11	10,000	2,250	12,250
2011-12	10,000	1,750	11,750
2012-13	10,000	1,250	11,250
2013-14	15,000	750	15,750
TOTALS	<u>\$ 105,000</u>	<u>\$ 30,000</u>	<u>\$ 135,000</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2004

NOTE H - LONG-TERM DEBT (Continued)

INTERNAL SERVICE FUNDS

Installment Loans

<u>Purpose of Note</u>	<u>Date Of Issue</u>	<u>Original Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>6/30/04 Balance</u>
JD Grader 2001	02/01/01	<u>\$ 137,506</u>	02/01/07	5.95%	<u>\$ 76,780</u>
Street Sweeper	01/10/00	<u>\$ 112,000</u>	01/10/05	5.50%	<u>\$ 63,648</u>

As of June 30, 2004, the aggregate maturities of loans payable are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004-05	\$ 81,479	\$ 8,667	\$ 90,146
2005-06	20,704	4,060	24,764
2006-07	21,977	2,786	24,763
2008-09	16,268	1,435	17,703
TOTALS	<u>\$ 140,428</u>	<u>\$ 16,948</u>	<u>\$ 157,376</u>

1997 COMPONENT UNIT NOTE PAYABLE

On October 6, 1997, the City's Downtown Development Authority (component unit) received cash proceeds of \$65,027 from Hancock Main Street, Inc., a 501(c)(3) corporation established for the historic preservation, development, and promotion of the City of Hancock. On February 7, 2000, the City issued a tax anticipation note to provide for the repayment of the debt. Principle payments on the bond are due August 1. The note is interest free.

SCHEDULE OF 2000 TAX ANTICIPATION NOTES

June 30, 2004

<u>Year</u>	<u>Principle</u>
2004-05	<u>\$ 5,027</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2004

NOTE H - LONG-TERM DEBT (Continued)

Changes in long-term debt principal during 2003-04 are summarized below:

	Balance 06/30/03	Additions	Retired	Balance 06/30/04
GENERAL LONG-TERM DEBT				
Building Authority Bonds - 1997	\$ 495,000	\$ 0	\$ 10,000	\$ 485,000
Building Authority Bonds - 1998	982,000	0	19,000	963,000
Fire Truck Note	55,709	0	17,673	38,036
	<u>1,532,709</u>	<u>0</u>	<u>46,673</u>	<u>1,486,036</u>
ENTERPRISE FUNDS				
Water System Bonds - 1997	1,184,562	0	13,000	1,171,562
Water System Bonds - 1998	474,000	0	6,000	468,000
Sewage Disposal Bonds - 1976	115,000	0	10,000	105,000
	<u>1,773,562</u>	<u>0</u>	<u>29,000</u>	<u>1,744,562</u>
INTERNAL SERVICE FUND				
Installment Loans	181,067	0	40,639	140,428
COMPONENT UNIT				
Tax Anticipation Note	20,027	0	15,000	5,027
TOTALS	<u>\$ 3,507,365</u>	<u>\$ 0</u>	<u>\$ 131,312</u>	<u>\$ 3,376,053</u>

The aggregate amount of maturities on long-term debt by fund type for each of the next 5 years, and to maturity, is as follows:

ENTERPRISE FUNDS			
June 30, 2004			
<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004-05	\$ 24,000	\$ 79,323	\$ 103,323
2005-06	26,000	78,080	104,080
2006-07	27,000	76,883	103,883
2007-08	35,000	75,640	110,640
2008-09	36,000	74,195	110,195
2009-10	38,000	72,548	110,548
2010-11	39,000	70,810	109,810
2011-12	40,000	69,028	109,028
2012-13	42,000	67,200	109,200
2013-14	48,000	65,283	113,283
2014-15	35,000	63,070	98,070
2015-16	36,000	61,518	97,518
2016-17	37,000	59,920	96,920
2017-18	40,000	58,278	98,278
2018-23	224,000	263,737	487,737
2023-28	287,000	208,835	495,835
2028-33	357,000	139,378	496,378
2033-38	373,562	52,539	426,101
TOTALS	<u>\$ 1,744,562</u>	<u>\$ 1,636,265</u>	<u>\$ 3,380,827</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2004

NOTE H - LONG-TERM DEBT (Continued)

INTERNAL SERVICE FUNDS

June 30, 2004

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004-05	\$ 81,479	\$ 8,667	\$ 90,146
2005-06	20,704	4,060	24,764
2006-07	21,977	2,786	24,763
2007-20	16,268	1,435	17,703
TOTALS	\$ 140,428	\$ 16,948	\$ 157,376

GENERAL LONG-TERM DEBT ACCOUNT GROUP

June 30, 2004

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004-05	\$ 48,553	\$ 72,620	\$ 121,173
2005-06	50,483	70,252	120,735
2006-07	31,000	67,794	98,794
2007-08	33,000	66,296	99,296
2008-09	40,000	64,751	104,751
2009-10	41,000	62,986	103,986
2010-11	43,000	61,025	104,025
2011-12	44,000	58,993	102,993
2012-13	46,000	56,889	102,889
2013-14	47,000	54,714	101,714
2014-15	54,000	52,468	106,468
2015-16	56,000	50,025	106,025
2016-17	58,000	47,363	105,363
2017-18	61,000	44,605	105,605
2018-23	360,000	176,572	536,572
2023-28	473,000	84,063	557,063
TOTALS	\$ 1,486,036	\$ 1,091,416	\$ 2,577,452

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2004

NOTE I - ENTERPRISE FUNDS

SEGMENT INFORMATION

The City maintains four Enterprise Funds which provide water, sewer, parking, and transit services. Segment information for the year ended June 30, 2004 is as follows:

	Parking Meter	Sewer	Water	Transit
Operating revenues	\$ 16,564	\$ 715,087	\$ 523,953	\$ 148,099
Depreciation	-	\$ 103,575	\$ 105,041	\$ 17,389
Income (loss) from operations	\$ (2,485)	\$ 22,104	\$ (52,232)	\$ (19,040)
Non-operating revenues	\$ 0	\$ 3,523	\$ 4,350	\$ 0
Non-operating expenses	\$ 0	\$ 5,750	\$ 74,343	\$ 0
Net Income (loss)	\$ 4,277	\$ 19,877	\$ (122,225)	\$ (4,508)
Property, plant & equipment				
Additions	\$ 0	\$ 12,183	\$ 25,246	\$ 3,001
Total assets	\$ 2,369	\$ 1,787,677	\$ 2,983,340	\$ 81,095
Net working capital surplus (deficit)	\$ 536	\$ 44,097	\$ (198,212)	\$ (15,905)
Long-term liabilities:				
Payable from operating revenues	\$ 0	\$ 95,000	\$ 1,625,562	\$ 0
Total equity	\$ 536	\$ 1,582,701	\$ 1,020,134	\$ 42,923

NOTE J - RESERVES AND RESTRICTED ASSETS

The ordinance authorizing issuance of the 1997 and 1998 Water Supply System Revenue Bonds required that specific accounts be established and monies deposited as follows:

Bond Reserve Account - Quarterly transfers are to be made in the sum of at least \$2,480 per quarter, with the annual requirement equal to \$9,920 until there is accumulated in such fund the aggregate sum of \$131,700.

Bond and Interest Redemption Account - Quarterly transfers are to be made equal to 1/2 of the next interest payment due plus 1/4 of the next principal payment due.

Short-lived Depreciation Account - Quarterly transfers are to be made in the sum of not less than \$2,843, with the annual requirement equal to \$11,370. When the balance in the Bond Reserve Account reaches \$131,700, the quarterly transfer will be increased to \$5,323.

At June 30, 2004, the City had established these accounts and had restricted cash, as required, as follows:

	June 30, 2003	Requirements Additions (Deletions)	June 30, 2004	Amount Funded
Bond reserve account	\$ 49,600	\$ 9,920	\$ 59,520	\$ 60,224
Bond and interest redemption account	22,038	(93)	21,945	12,535
Short-lived depreciation account	56,860	11,372	68,232	71,829
	<u>\$ 128,498</u>	<u>\$ 21,199</u>	<u>\$ 149,697</u>	<u>\$ 144,588</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2004

NOTE K - TRANSIT FUND

The Transit fund receives grant revenue under Section 10e(4) of PA 51 and Section 5311 of the Urban Mass Transportation Act of 1964. These funds are to be used to pay for eligible operating expenses for public transportation. The Local Bus Operating Assistance revenue under Act 51 is disbursed to the City based on the amount of eligible operating expenses at the current reimbursement rate. As of June 30, 2004, the rate is 42.2366%. The Section 5311 Federal Operating Assistance revenue is based on a percentage of eligible expenses for non-urban areas as established by OMB Circular A-87. As of June 30, 2004, the rate is 10.95%. The Local Audit Division of the Michigan Department of Treasury and the Bus Transit Division of MDOT administer the audit disclosures and compliance requirements. The additional Transit Fund financial information for the City as required by MDOT is reported after the Supplemental Information.

NOTE L - TAX INCREMENT FINANCING

The City had three tax increment financing districts at June 30, 2004, the Downtown Development District(DDD), the Elevation Street District(ESD), and the MTEPS (Smart Zone) district. The taxes on the DDD and the ESD districts are levied based on the increase of the state equalized value of the properties from the base year to the current year and are levied on both real and personal property. The DDD expanded the base year in 1993 from the 1984 initial base year. The tax revenues generated from the DDD and the ESD are recorded in the Downtown Development Authority Fund and Elevation Street TIFA Fund respectively.

On April 11, 2001, The Michigan Economic Development Corporation approved the application for a Smart Park that was submitted by the Michigan Tech Enterprise Smart Zone (MTEPS). The MTEPS is a partnership between Michigan Technological University, the City of Hancock and the City of Houghton. The MTEPS will be funded for the first 2 years by a state grant. Thereafter, it will be funded through a tax increment financing district which includes the entire Cities of Hancock and Houghton. The tax is levied annually with the school millage only and will continue until the year 2017. The Smart Zone TIF plan will not affect either City's current tax revenue. The tax revenue levied for the summer 2003 Smart Zone was collected and paid in full to the MTEPS as of June 30, 2004.

Summary of TIF district data as of June 30, 2004:

	TIF District		
	Downtown Development	Elevation St	MTEPS
Base year	1984	1993	1999
State Equalized Value (SEV) base year			
Real property	\$ 9,460,400	\$ 143,000	\$ 46,452,900
Personal property	\$ 1,639,380	\$ 0	\$ 3,128,327
Current year SEV			
Real property	\$ 12,641,660	\$ 974,907	\$ 53,984,843
Personal property	\$ 1,496,969	\$ 116,608	\$ 3,865,455
Increase (Decrease) of taxable value			
Real	\$ 3,181,260	\$ 831,907	\$ 7,531,943
Personal property	\$ (142,411)	\$ 116,608	\$ 737,128
Authorized tax mills levied	\$ 24	\$ 21	\$ 12
Tax revenue collected	\$ 75,705	\$ 20,065	\$ 25,113

CITY OF HANCOCK**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2004****NOTE M - EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the City for these budgetary funds were adopted at the account level. During the year ended June 30, 2004, the City incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated. Over expenditures are noted as follows:

Description	<u>Total</u> <u>Appropriations</u>	<u>Amount of</u> <u>Expenditures</u>	<u>Budget</u> <u>Variances</u>
GENERAL FUND			
General Administration-Assessor	\$ 24,098	\$ 24,524	\$ (426)
General Administration-Elections	\$ 920	\$ 2,067	\$ (1,147)
General Administration-Accounting	\$ 15,000	\$ 15,065	\$ (65)
Public Safety-Fire	\$ 119,331	\$ 120,297	\$ (966)
Public Works-DPW	\$ 102,126	\$ 107,204	\$ (5,078)
Public Works-Equip rental/street light	\$ 67,000	\$ 71,116	\$ (4,116)
Public Works-Sidewalks and curbs	\$ 13,400	\$ 13,932	\$ (532)
Recreation-Campground	\$ 48,000	\$ 49,115	\$ (1,115)
Recreation-Skating Rinks	\$ 7,657	\$ 7,665	\$ (8)
MAJOR STREET FUND			
Traffic services	\$ 5,759	\$ 5,855	\$ (96)
Snow and ice control	\$ 142,553	\$ 143,007	\$ (454)
LOCAL STREET FUND			
Snow and ice control	\$ 191,104	\$ 192,512	\$ (1,408)
CDBG NPP M2000-0657	\$ 0	\$ 124,005	\$ (124,005)
EMPLOYEE BENEFITS FUND			
Payroll taxes	\$ 101,258	\$ 112,006	\$ (10,748)
Retirement plan expense	\$ 92,500	\$ 95,965	\$ (3,465)
Holiday pay	\$ 31,500	\$ 33,312	\$ (1,812)
Sick pay and personal leave	\$ 37,000	\$ 39,566	\$ (2,566)
Vacation pay	\$ 65,000	\$ 74,179	\$ (9,179)
Workers' compensation insurance	\$ 40,000	\$ 40,882	\$ (882)
Hospitalization insurance	\$ 398,000	\$ 400,958	\$ (2,958)
Employee life insurance	\$ 6,700	\$ 7,331	\$ (631)

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2004

NOTE N - PENSION PLAN

DEFINED BENEFIT PENSION PLAN

Plan Description: The City contributes to the Municipal Employees' Retirement System of Michigan (MERS) which is an agent multiple employer public defined benefit employee retirement plan. The City adopted the plan on December 1, 2002, and transferred MERS member employees plan assets from the previous money purchase defined contribution plan to the new retirement system in January 2003. The new MERS system was also funded with employee retirement benefits accrued based on agreements from the prior money purchase plan but not deposited into the plan for the period January 2002 to November 2002. The MERS provides retirement, disability, and death benefits to plan members and beneficiaries. The plan covers all employees of the City, except those already covered by a union bargaining agreement or otherwise not qualified. Currently, 12 active members are enrolled. An employee is eligible for full retirement benefits after 8 years of credited service and age 60 is attained. The annual pension benefit at retirement is based on 2% of the employees Final Average Compensation (FAC) multiplied by the years and months of service. FAC is the average of the highest consecutive 5-year period of the employees' credited service. A month of service is credited if at least 80 hours are worked in that month. Retirement benefits vest after 8 years of service, and are not paid until the date retirement would have occurred had the member remained an employee.

MERS was created under Public Act 135 of 1945, as repealed and replaced by Public Act 427 of 1984. On August 15, 1996, pursuant to 1996 PA 220, MERS became an independent public non-profit corporation. Prior to that time MERS was a component unit of the State of Michigan. MERS is currently administered solely by a nine-member Retirement Board. A publicly available financial report that includes financial statements and required supplementary information is issued annually by MERS. The report may be obtained by writing to Municipal Employees' Retirement System of MI, 1134 Municipal Way, Lansing MI, 48917 or by calling 1-517-703-9030.

Funding Policy: Plan members are required to contribute 3.3% of their annual covered salary. The City is required to contribute at an actuarially determined rate. The current rate is 9.23% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by the MERS Retirement Board.

Annual Pension Cost: For the year ended June 30, 2004, the City's required and actual pension cost was \$47,147. The annual required contribution percentage was determined as a part of the Initial Actuarial Valuation on January 31, 2002, using the entry age normal cost method. Significant actuarial assumptions used include a net investment rate of return on assets of 8 percent per year compounded annually, projected salary increases of 4.5 percent per year compounded annually due to inflation, and additional projected salary increases ranging from 0 to 4.5 percent per year depending on an age to reflect merit and longevity. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. Any unfunded actuarial liability is amortized by a level percent of payroll contributions over a period of 30 years.

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2004

NOTE N - PENSION PLAN (Continued)

Information trend comparison as required by GASB No. 27 and 25 is as follows:

<u>Fiscal Year Ended June 30</u>	<u>2004</u>	<u>2003</u>
Annual pension cost (APC)	\$ 48,147	\$ 27,764
Percentage of APC contributed	100%	100%
Net pension obligation	\$ 0	0

<u>Valuation Year Ended Dec 31</u>	<u>2004</u>	<u>2003</u>
Actuarial accrued liability (AAL)	N/A	\$ 899,798
Actuarial value of assets	N/A	\$ 507,707
Unfunded AAL (UAAL)	N/A	\$ 392,091
Funded Ratio	N/A	56%
Covered payroll	N/A	\$ 506,959
UAAL as a % of covered payroll	N/A	77%

DEFINED CONTRIBUTION PENSION UNION AGREEMENT

The City provides pension benefits for all Teamster employees per the signed union bargaining agreement. For the year ending June 30, 2004, the City made weekly contributions of \$63 - \$69 to a defined contribution plan based on years of service. Contributions for Teamster employees are paid to the Central States Southeast & Southwest Areas Pension Fund. The Teamster employees are not required to contribute to the pension plan. The City does not administer the pension plan for Teamster employees and therefore has no liability beyond its monthly contributions.

NOTE O - DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all government employees that enter into a joinder agreement with the City, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Due to changes in the Internal Revenue Code, the Plan's assets are considered to be the property of the Plan's participants and are no longer subject to the City's general creditors. Because the City relies on a third party for investment and administration of the plan, the 457 plan assets are excluded from the financial statements.

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2004

NOTE P - RESERVED FUND BALANCE

The City has restricted cash accounts in the General Fund of \$66,032. This reserve constitutes cash that is restricted for specific future use as follows:

Dupee Shaft	\$	23,424
Main Street Local Pool		37,519
Perry House		257
Civic Flowers		1,722
Parks Round up Contribution		2,834
Sister City		133
Maasto Hiihto		143
TOTAL	\$	<u>66,032</u>

The fund balance of \$7,741 in the Debt Service Fund is reserved for debt service payments only.

The fund balance of \$150,355 in the Cemetery Perpetual Care Trust is reserved for the perpetual care payments.

NOTE Q - DESIGNATED FUND BALANCE

In 1981, funds of a Community Development Block Grant were used to establish a revolving commercial loan program to assist local businesses who have exhausted other means of obtaining credit. The balance in the General Fund's Main Street Loan Pool of \$37,519 represents the cash balance of the commercial loan program. As of June 30, 2004, there were no outstanding loan balances. The City provides these loans interest free.

NOTE R - DEFICIT FUND BALANCE

The general-purpose financial statements Local Street Fund had a cumulative fund deficit at June 30, 2004 of \$1,336. The Employee Benefits Fund also has a cumulative fund deficit at June 30, 2004 of \$45,561.

NOTE S - CONTINGENT LIABILITY

In conjunction with moving into the new department of public works garage (see Note H), the City removed underground storage tanks from the old department of public works facility whereupon it was discovered that one of the tanks had leaked. The City is monitoring the site and is following the cleanup requirements issued from the Michigan Department of Environmental Quality.

NOTE T - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City continues to carry commercial insurance for property, liability, wrongful acts, crime inland marine, and other risks of loss including worker's compensation and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2004

NOTE U - PRIOR PERIOD ADJUSTMENT

A prior period adjustment of \$15,000 was recorded in the Downtown Development Authority Fund. The adjustment was necessary to correct an error in the "amount to be provided" account as of June 30, 2003 and the ending fund balance.

The General Fixed Assets Account Group was increased \$51,200 for real estate residential lots sold in the prior year. The property has no estimated cost basis on record and has been owned by the City for many years.

NOTE V - RECLASSIFICATION

Certain items in the June 2003 financial statements have been reclassified to conform with the current year presentation.

SUPPLEMENTAL FINANCIAL INFORMATION

CITY OF HANCOCK

GENERAL FUND

BALANCE SHEETS

June 30, 2004

With Comparative Totals at June 30, 2003

	2004	2003
ASSETS:		
Current Assets:		
Investments		
Cash	\$ 50,037	\$ 14,409
Receivables:	44,768	46,053
Delinquent taxes		
Service customers (includes unbilled)	4,062	3,262
Other	14,167	12,765
Due from other funds	35,909	13,296
Due from government units	306,175	248,006
Prepaid expenses	133,567	106,563
Inventory	58,345	30,885
Restricted assets:	6,159	11,352
Cash	66,032	61,926
TOTAL ASSETS	\$ 719,221	\$ 548,517
LIABILITIES:		
Accounts payable	\$ 77,900	\$ 42,035
Accrued expenses	33,015	33,389
Due to other funds	88,608	92,372
TOTAL LIABILITIES	199,523	167,796
FUND EQUITY:		
Fund balance:		
Unreserved	519,698	380,721
TOTAL LIABILITIES AND FUND EQUITY	\$ 719,221	\$ 548,517

CITY OF HANCOCK
GENERAL FUND
STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2004
With Comparative Actual Amounts for Year Ended June 30, 2003

	2004			
	Budget	Actual	Variance- Favorable (Unfavorable)	2003
REVENUES:				
Taxes:				
Real property taxes	\$ 760,000	\$ 704,172	\$ (55,828)	\$ 682,066
Personal property taxes	54,084	52,115	(1,969)	54,809
Penalties and interest on tax	6,000	5,953	(47)	3,280
Payments in lieu of tax	17,700	17,604	(96)	16,383
Tax administration fees	30,000	29,372	(628)	29,618
Total taxes	867,784	809,216	(58,568)	786,156
State and federal:				
Miscellaneous	14,000	13,978	(22)	3,236
Police training	1,770	1,769	(1)	1,769
Fire Truck Grant	53,250	53,248	(2)	.
Grants	-	-	-	500
Sales tax	537,525	523,105	(14,420)	581,059
Liquor tax	5,629	4,255	(1,374)	4,126
Total state and federal	612,174	596,355	(15,819)	590,690
Service fee revenue:				
Vault service	4,390	4,385	(5)	2,040
Burial open and close	9,000	8,740	(260)	7,948
Garbage collection	170,000	165,933	(4,067)	170,768
Campground revenue	57,950	57,947	(3)	58,731
Beach rental fees	780	780	-	685
Other charges	100,413	100,392	(21)	92,187
Cemetery lots - old & new	5,650	4,775	(875)	1,975
Total service fee revenue	348,183	342,952	(5,231)	334,334
Fines, forfeitures and penalties	-	30,447	30,447	-
Rentals:				
Interest income	3,662	4,269	607	6,131
Cemetery interest	2,027	112	(1,915)	49
Land rents	1,100	1,100	-	3,603
Office rental	8,579	7,620	(959)	7,620
Total rentals	15,368	13,101	(2,267)	17,403

CITY OF HANCOCK
GENERAL FUND
STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

(Continued)

Year Ended June 30, 2004

With Comparative Actual Amounts for Year Ended June 30, 2003

	2004			
	Budget	Actual	Variance- Favorable (Unfavorable)	2003
Other revenue:				
Sale of assets	51,975	51,975	-	5,775
Parks Round-up contributions	80	79	(1)	63
Sand and salt sales	1,320	1,317	(3)	983
Cable franchise fee	18,225	27,336	9,111	18,164
Reimbursements	7,400	8,296	896	22,617
Licenses and permits	6,900	6,820	(80)	1,265
Miscellaneous	5,910	3,711	(2,199)	297
Total other revenue	91,810	99,534	7,724	49,164
TOTAL REVENUES	1,935,319	1,891,605	(43,714)	1,777,747
EXPENDITURES:				
General government administration:				
Legislative	14,195	12,533	1,662	20,990
City Manager	88,216	81,962	6,254	91,622
Planning and professional services	5,157	4,599	558	9,998
Clerk	58,741	44,104	14,637	51,585
Treasurer	62,447	42,245	20,202	67,658
Attorney	9,007	5,746	3,261	6,300
Assessor	24,098	24,524	(426)	25,632
Elections	920	2,067	(1,147)	9,181
Accounting and computer services	15,000	15,065	(65)	12,675
Board of Review	1,058	883	175	850
Buildings and grounds	28,104	24,752	3,352	14,251
Cemetery	33,864	26,075	7,789	32,147
Total general government administration	340,807	284,555	56,252	342,889
Public safety:				
Police	541,865	535,675	6,190	516,893
Fire	119,331	120,297	(966)	73,873
Protective inspections	13,750	13,183	567	12,000
Total public safety	674,946	669,155	5,791	602,766

CITY OF HANCOCK
GENERAL FUND
STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

(Continued)

Year Ended June 30, 2004

With Comparative Actual Amounts for Year Ended June 30, 2003

	2004			
	Budget	Actual	Variance- Favorable (Unfavorable)	2003
Public works:				
Department of public works	102,126	107,204	(5,078)	84,430
Winter maintenance	2,125	2,092	33	3,526
Equipment rental - street lighting	67,000	71,116	(4,116)	62,500
Sidewalks and curbs	13,400	13,932	(532)	4,711
Total public works	184,651	194,344	(9,693)	155,167
Sanitation:				
Garbage collection	142,714	138,353	4,361	132,097
Landfill	100,300	90,512	9,788	95,098
Spring and fall cleanup	37,100	36,233	867	33,915
Total sanitation	280,114	265,098	15,016	261,110
Culture and recreation:				
Parks	55,937	55,016	921	89,232
Water front development	513	-	513	9,909
Beach	14,229	10,024	4,205	5,768
Campground	48,000	49,115	(1,115)	43,098
Ski trails	11,979	11,101	878	9,238
Skating rinks	7,657	7,665	(8)	7,914
Total culture and recreation	138,315	132,921	5,394	165,159
Waterfront road/walkway	-	-	-	6,065
Debt service	20,525	20,480	45	20,480
Other:				
Community promotion	33,059	29,556	3,503	28,993
Insurance	35,270	35,269	1	31,360
Total other	68,329	64,825	3,504	60,353
TOTAL EXPENDITURES	1,707,687	1,631,378	76,309	1,613,989
EXCESS OF REVENUES OVER EXPENDITURES	227,632	260,227	32,595	163,765

CITY OF HANCOCK
GENERAL FUND
STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
(Continued)

Year Ended June 30, 2004

With Comparative Actual Amounts for Year Ended June 30, 2003

	2004			
	Budget	Actual	Variance- Favorable (Unfavorable)	2003
OTHER FINANCING SOURCES (USES):				
Operating transfers out	(121,250)	(121,250)	-	(183,607)
TOTAL OTHER FINANCING SOURCES (USES)	(121,250)	(121,250)	-	(183,607)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	\$ 106,382	138,977	\$ 32,595	(19,849)
FUND BALANCE, BEGINNING OF YEAR		380,721		400,570
FUND BALANCE, END OF YEAR		\$ 519,698		\$ 380,721

CITY OF HANCOCK
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEETS

June 30, 2004

With Comparative Totals at June 30, 2003

	Major Street	Local Street	Community Development Block Grant	CDBG MSC-97-657 NPP	Elevation Street TIF	Totals	
						2004	2003
ASSETS:							
Current Assets:							
Cash	\$ 11,591	\$ 1,622	\$ 7,252	\$ 2,990	\$ 17,899	\$ 41,354	\$ 116,811
Delinquent taxes	-	-	-	-	45	45	45
Due from other governmental units	41,312	65,065	-	-	-	106,377	55,110
Due from other funds	-	45,014	-	-	38,999	84,013	62,033
Prepaid expense	693	6,174	-	-	-	6,867	-
TOTAL ASSETS	\$ 53,596	\$ 117,875	\$ 7,252	\$ 2,990	\$ 56,943	\$ 238,656	\$ 233,999
LIABILITIES:							
Current liabilities:							
Accounts payable	\$ 2,644	\$ 4,623	\$ -	\$ -	\$ -	\$ 7,267	\$ 12,626
Accrued wages payable	906	7,173	-	-	-	8,079	7,466
Due to other funds	38,623	107,415	-	-	-	146,038	74,139
Total current liabilities	42,173	119,211	-	-	-	161,384	94,231
FUND EQUITY:							
Fund balances	11,423	(1,336)	7,252	2,990	56,943	77,272	139,768
TOTAL LIABILITIES AND FUND EQUITY	\$ 53,596	\$ 117,875	\$ 7,252	\$ 2,990	\$ 56,943	\$ 238,656	\$ 233,999

CITY OF HANCOCK
SPECIAL REVENUE FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

June 30, 2004

With Comparative Totals for Year Ended June 30, 2003

	Major Street	Local Street	Community Development Block Grant	CDBG MSC-97-657 NPP	Elevation Street TIF	Totals	
						2004	2003
REVENUES:							
Taxes	\$ -	\$ 99,299	\$ -	\$ -	\$ 20,065	\$ 119,364	\$ 87,069
State and federal	442,529	162,090	-	16,701	-	621,320	966,815
Interest revenue	272	128	-	-	-	400	385
Other revenue	-	1,935	-	29,485	43	31,463	94,846
TOTAL REVENUES	442,801	263,452	-	46,186	20,108	772,547	1,149,115
EXPENDITURES:							
Expenditures:							
General government administration	21,448	6,530	-	-	11,131	39,109	29,218
Highways and streets:							
Construction	23,947	84,824	-	-	-	108,771	90,470
State trunkline maintenance	194,208	-	-	-	-	194,208	194,737
Routine maintenance	25,509	94,567	-	-	-	120,076	106,264
Traffic services	5,855	5,371	-	-	-	11,226	4,798
Snow and ice control	143,007	192,512	-	-	-	335,519	290,597
Sweeping and flushing	1,471	659	-	-	-	2,130	7,152
State grant expenditures	-	-	(1)	124,005	-	124,004	398,733
TOTAL EXPENDITURES	415,445	384,463	(1)	124,005	11,131	935,043	1,121,969
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	27,356	(121,011)	1	(77,819)	8,977	(162,496)	27,146
OTHER FINANCING SOURCES (USES):							
Operating transfers in	-	119,675	-	-	-	119,675	190,255
Operating transfers out	(19,675)	-	-	-	-	(19,675)	(36)
TOTAL OTHER FINANCING SOURCES (USES)	(19,675)	119,675	-	-	-	100,000	190,219
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	7,681	(1,336)	1	(77,819)	8,977	(62,496)	217,365
FUND BALANCE(DEFICIT), BEGINNING OF YEAR	3,742	-	7,251	80,809	47,966	139,768	(77,597)
FUND BALANCE(DEFICIT), END OF YEAR	\$ 11,423	\$ (1,336)	\$ 7,252	\$ 2,990	\$ 56,943	\$ 77,272	\$ 139,768

CITY OF HANCOCK
MAJOR STREET FUND
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year Ended June 30, 2004
With Comparative Actual Amounts for Year Ended June 30, 2003

	2004			
	Budget	Actual	Variance- Favorable (Unfavorable)	2003
REVENUES:				
State and federal	\$ 438,700	\$ 442,529	\$ 3,829	\$ 416,647
Interest revenue	325	272	(53)	219
Other revenue	-	-	-	3,471
TOTAL REVENUES	439,025	442,801	3,776	420,337
EXPENDITURES:				
General government administration	22,061	21,448	613	21,514
Highways and streets:				
Construction	24,951	23,947	1,004	34,129
State trunkline maintenance	212,723	194,208	18,515	194,737
Routine maintenance	33,793	25,509	8,284	26,435
Traffic services	5,759	5,855	(96)	2,094
Snow and ice control	142,553	143,007	(454)	136,071
Sweeping and flushing	1,525	1,471	54	1,667
Total highways and streets	421,304	393,997	27,307	395,133
TOTAL EXPENDITURES	443,365	415,445	27,920	416,647
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(4,340)	27,356	31,697	3,690
OTHER FINANCING SOURCES (USES):				
Operating transfers out	(19,675)	(19,675)	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	\$ (24,015)	7,681	\$ 31,697	3,690
FUND BALANCE, BEGINNING OF YEAR		3,742		52
FUND BALANCE, END OF YEAR		\$ 11,423		\$ 3,742

CITY OF HANCOCK
LOCAL STREET FUND
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year Ended June 30, 2004
With Comparative Actual Amounts for Year Ended June 30, 2003

	2004			
	Budget	Actual	Variance- Favorable (Unfavorable)	2003
REVENUES:				
Taxes	\$ 76,700	\$ 99,299	\$ 22,599	\$ 67,798
State and federal	160,094	162,090	1,996	171,693
Interest revenue	150	128	(22)	166
Other revenue	1,950	1,935	(15)	202
TOTAL REVENUES	238,894	263,452	24,558	239,859
EXPENDITURES:				
General government administration	6,564	6,530	34	7,704
Highways and streets:				
Construction	101,532	84,824	16,708	56,341
Routine maintenance	102,542	94,567	7,975	79,829
Traffic services	5,394	5,371	23	2,704
Snow and ice control	191,104	192,512	(1,408)	154,526
Sweeping and flushing	2,250	659	1,591	5,485
Total highways and streets	402,822	377,933	24,889	298,885
TOTAL EXPENDITURES	409,386	384,463	24,923	306,589
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(170,492)	(121,011)	49,481	(66,730)
OTHER FINANCING SOURCES (USES):				
Operating transfers in	119,675	119,675	-	190,219
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	\$ (50,817)	(1,336)	\$ 49,481	123,489
FUND BALANCE(DEFICIT), BEGINNING OF YEAR				(123,489)
FUND BALANCE(DEFICIT), END OF YEAR		\$ (1,336)		\$ -

CITY OF HANCOCK
COMMUNITY DEVELOPMENT BLOCK GRANT FUND - M2000-0657 (NPP)
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
Year Ended June 30, 2004
With Comparative Actual Amounts for Year Ended June 30, 2003

	2004	2003
REVENUES:		
State and federal	\$ 16,701	\$ 378,475
Other revenue	29,485	90,884
TOTAL REVENUES	46,186	469,359
EXPENDITURES:		
State grant expenditures:		
Administration	8,766	62,174
Construction	115,239	336,001
TOTAL EXPENDITURES	124,005	398,175
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(77,819)	71,184
OTHER FINANCING SOURCES (USES):		
Operating transfers in	-	36
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	(77,819)	71,220
FUND BALANCE, BEGINNING OF YEAR	80,809	9,589
FUND BALANCE, END OF YEAR	\$ 2,990	\$ 80,809

CITY OF HANCOCK
ELEVATION STREET TIFA
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year Ended June 30, 2004
With Comparative Actual Amounts for Year Ended June 30, 2003

	2004			
	Budget	Actual	Variance- Favorable (Unfavorable)	2003
REVENUES:				
Taxes	\$ 20,100	\$ 20,065	\$ (35)	\$ 19,271
Other revenue	75	43	(32)	289
TOTAL REVENUES	20,175	20,108	(67)	19,560
EXPENDITURES:				
General government administration	13,000	11,131	1,869	.
EXCESS OF REVENUES OVER EXPENDITURES	\$ 7,175	8,977	\$ 1,802	19,560
FUND BALANCE, BEGINNING OF YEAR		47,966		28,406
FUND BALANCE, END OF YEAR		\$ 56,943		\$ 47,966

CITY OF HANCOCK
DEBT SERVICE (BUILDING AUTHORITY) FUND
BALANCE SHEETS

June 30, 2004

With Comparative Totals at June 30, 2003

	<u>2004</u>	<u>2003</u>
ASSETS:		
Cash	\$ 7,741	\$ 7,703
FUND EQUITY:		
Fund balance:		
Reserved	\$ 7,741	\$ 7,703

CITY OF HANCOCK
DEBT SERVICE (BUILDING AUTHORITY) FUND
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year ended June 30, 2004
With Comparative Actual Amounts for Year Ended June 30, 2003

	2004			
	Budget	Actual	Variance- Favorable (Unfavorable)	2003
REVENUES:				
Rentals:				
Rental Income	\$ 99,600	\$ 99,532	\$ (68)	\$ 99,875
Interest income	50	38	(12)	88
TOTAL REVENUES	99,650	99,570	(80)	99,963
EXPENDITURES:				
Debt service:				
Bond principal	29,000	29,000	-	28,000
Bond interest and other expense	70,600	70,532	68	71,876
Total debt service	99,600	99,532	68	99,876
EXCESS OF REVENUES OVER EXPENDITURES	\$ 50	38	\$ (12)	87
FUND BALANCE, BEGINNING OF YEAR		7,703		7,616
FUND BALANCE, END OF YEAR		\$ 7,741		\$ 7,703

CITY OF HANCOCK
RESIDENTIAL CAPITAL PROJECTS
BALANCE SHEETS

June 30, 2004

With Comparative Totals at June 30, 2003

	2004	2003
ASSETS:		
Cash and equivalents	\$ 22,653	\$ 13,436
Receivables	29,700	-
TOTAL ASSETS	<u>\$ 52,353</u>	<u>\$ 13,436</u>
LIABILITIES:		
Accounts payable	\$ 50	\$ 100
Due to other funds	46,979	-
TOTAL LIABILITIES	<u>47,029</u>	<u>100</u>
FUND EQUITY:		
Fund balance	5,324	13,336
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 52,353</u>	<u>\$ 13,436</u>

CITY OF HANCOCK
RESIDENTIAL CAPITAL PROJECTS
STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year Ended June 30, 2004

With Comparative Actual Amounts for Year Ended June 30, 2003

	2004			
	Budget	Actual	Variance- Favorable (Unfavorable)	2003
REVENUES:				
Other revenue:				
Lot sales	\$ 23,301	\$ 52,612	\$ 29,311	\$ 51,200
Other	225	106	(119)	244
TOTAL REVENUES	23,526	52,718	29,192	51,444
EXPENDITURES:				
General government administration	500	240	260	19,120
Legislative	3,000	2,895	105	-
Total general government administration	3,500	3,135	365	19,120
Construction	61,485	57,595	3,890	63,229
TOTAL EXPENDITURES	64,985	60,730	4,255	82,349
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (41,459)	(8,012)	\$ 33,447	(30,905)
FUND BALANCE, BEGINNING OF YEAR		13,336		44,241
FUND BALANCE, END OF YEAR		\$ 5,324		\$ 13,336

CITY OF HANCOCK
ENTERPRISE FUNDS
COMBINING BALANCE SHEETS
June 30, 2004
With Comparative Totals at June 30, 2003

	Parking Meter	Transit	Sewer Disposal System	Water Supply System	Totals	
					2004	2003
ASSETS:						
Current Assets:						
Cash	\$ 1,685	\$ 3,733	\$ 37,246	\$ 18,278	\$ 60,942	\$ 46,788
Investments	-	-	24,654	17,599	42,253	47,007
Accounts receivable	80	123	52,071	41,675	93,949	86,598
Due from other governmental units	-	13,252	-	-	13,252	-
Due from other funds	-	-	14,289	9,610	23,899	-
Inventory	-	-	21,788	47,688	69,476	104,477
Prepaid expenses	604	5,159	4,025	4,582	14,370	6,458
Total current assets	2,369	22,267	154,073	139,432	318,141	291,328
Restricted assets:						
Investments	-	-	104,312	71,829	176,141	165,284
Cash - bond reserves	-	-	6,505	72,759	79,264	79,042
Cash - redemption fund	-	-	6,309	-	6,309	6,304
Total restricted assets	-	-	117,126	144,588	261,714	250,630
Fixed assets:						
Equipment	30,893	-	-	-	30,893	30,893
Utility plant in service	-	89,117	5,759,952	5,440,436	11,289,505	11,249,075
Land and land improvements	-	-	-	238,496	238,496	238,496
Less accumulated depreciation & amortization	(30,893)	(30,289)	(4,243,474)	(2,979,612)	(7,284,268)	(7,058,262)
Total fixed assets	-	58,828	1,516,478	2,699,320	4,274,626	4,460,202
TOTAL ASSETS	\$ 2,369	\$ 81,095	\$ 1,787,677	\$ 2,983,340	\$ 4,854,481	\$ 5,002,160
LIABILITIES:						
Current liabilities:						
Accounts payable	\$ 523	\$ 1,151	\$ 268	\$ 4,975	\$ 6,917	\$ 63,411
Accrued interest	-	-	-	(958)	(958)	(958)
Accrued wages payable	719	3,329	1,819	5,441	11,308	8,454
Due to other funds	591	33,692	71,127	282,380	387,790	294,110
Due to other governmental units	-	-	26,762	31,806	58,568	114,708
Current maturities on long-term debt	-	-	10,000	14,000	24,000	29,000
Total current liabilities	1,833	38,172	109,976	337,644	487,625	508,725
Long-term liabilities						
Revenue bonds payable	-	-	95,000	1,625,562	1,720,562	1,744,562
TOTAL LIABILITIES	1,833	38,172	204,976	1,963,206	2,208,187	2,253,287
FUND EQUITY:						
Contributed capital	-	-	1,353,346	569,818	1,923,164	1,929,654
Fund balances	536	42,923	229,355	450,316	723,130	819,219
TOTAL FUND EQUITY	536	42,923	1,582,701	1,020,134	2,646,294	2,748,873
TOTAL LIABILITIES AND FUND EQUITY	\$ 2,369	\$ 81,095	\$ 1,787,677	\$ 2,983,340	\$ 4,854,481	\$ 5,002,160

CITY OF HANCOCK
ENTERPRISE FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENSES, AND CHANGES
IN RETAINED EARNINGS

June 30, 2004

With Comparative Totals for Year Ended June 30, 2003

	Parking Meter	Transit	Sewer Disposal System	Water Supply System	Totals	
					2004	2003
OPERATING REVENUES:						
Operating revenues:						
Charges for services	\$ 16,564	\$ 15,151	\$ 644,352	\$ 523,310	\$ 1,199,377	\$ 1,140,053
State Grant	-	84,543	-	-	84,543	130,648
Other revenue	-	48,405	70,735	643	119,783	47,840
TOTAL OPERATING REVENUES	16,564	148,099	715,087	523,953	1,403,703	1,318,541
EXPENSES:						
General administration	19,049	32,816	30,971	61,204	144,040	171,487
Meter reading	-	-	3,335	-	3,335	3,094
Purchase of water	-	-	-	174,259	174,259	188,334
Operations and maintenance	-	116,934	101,067	235,681	453,682	419,470
Share of Ptg Lake W & S Auth plant exp	-	-	454,035	-	454,035	461,227
Depreciation	-	17,389	103,575	105,041	226,005	225,207
TOTAL EXPENSES	19,049	167,139	692,983	576,185	1,455,356	1,468,819
OPERATING INCOME(LOSS)	(2,485)	(19,040)	22,104	(52,232)	(51,653)	(150,278)
NON-OPERATING REVENUES (EXPENSES):						
Interest income	12	32	3,523	4,350	7,917	14,927
Interest expense	-	-	(5,750)	(74,343)	(80,093)	(78,300)
Operating transfers in	6,750	14,500	-	-	21,250	5,000
TOTAL NON-OPERATING REVENUES (EXPENSES)	6,762	14,532	(2,227)	(69,993)	(50,929)	(58,373)
NET INCOME(LOSS)	4,277	(4,508)	19,878	(122,225)	(102,579)	(208,651)
RETAINED EARNINGS(DEFICIT), BEGINNING OF YEAR	(3,741)	47,431	209,478	566,051	819,219	1,021,380
ADJUSTMENTS TO FUND EQUITY:						
Add depr on F/A acq w/contributed capital	-	-	-	6,490	6,490	6,490
RETAINED EARNINGS, END OF YEAR	\$ 536	\$ 42,923	\$ 229,355	\$ 450,316	\$ 723,130	\$ 819,219

CITY OF HANCOCK
ENTERPRISE FUNDS
COMBINING STATEMENTS OF CASH FLOWS
For the Year Ended June 30, 2004

	Parking Meter	Transit	Sewer Disposal System	Water Supply System	Totals (Memorandum Only)
CASH FLOWS FROM OPERATING ACTIVITIES					
Operating income (loss)	\$ (2,485)	\$(19,040)	\$ 22,104	\$ (52,232)	\$ (51,653)
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation	0	17,389	103,575	105,041	226,005
Operating transfers in (out)	6,750	14,500	0	0	21,250
(Increase) decrease in accounts receivable	0	(123)	(3,998)	(3,230)	(7,351)
Increase (decrease) in due from other funds	0	0	(14,289)	(9,610)	(23,899)
Increase (decrease) in due from other governmental units	0	(13,252)	0	0	(13,252)
(Increase) decrease in inventory	0	0	518	34,483	35,001
(Increase) decrease in prepaid expenses	(604)	(2,226)	(1,150)	(3,932)	(7,912)
Increase (decrease) in accounts payable	(622)	(7,936)	(1,540)	(46,396)	(56,494)
Increase (decrease) in accrued expenses	(751)	(72)	793	2,884	2,854
Increase (decrease) in due to other funds	(1,969)	16,608	20,271	(58,770)	93,680
Increase (decrease) in due to other governmental units	0	0	(87,946)	31,806	(56,140)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>319</u>	<u>5,848</u>	<u>38,338</u>	<u>117,584</u>	<u>162,089</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	0	0	(3,107)	(2,996)	(6,103)
Purchase of equipment	0	(3,000)	(12,183)	(25,246)	(40,429)
Proceeds from sale of investments	0	0	0	0	0
Interest on investments	12	32	3,523	4,350	7,917
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>12</u>	<u>(2,968)</u>	<u>(11,767)</u>	<u>(23,892)</u>	<u>(38,615)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Interest paid on long-term debt	0	0	(5,750)	(74,343)	(80,093)
Repayment of long-term debt	0	0	(10,000)	(19,000)	(29,000)
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>0</u>	<u>0</u>	<u>(15,750)</u>	<u>(93,343)</u>	<u>(109,093)</u>
NET INCREASE (DECREASE) IN CASH	331	2,880	10,821	349	13,351
CASH AT BEGINNING OF YEAR	<u>1,354</u>	<u>853</u>	<u>39,239</u>	<u>90,688</u>	<u>132,134</u>
CASH AT END OF YEAR	<u>\$ 1,685</u>	<u>\$ 3,733</u>	<u>\$ 50,060</u>	<u>\$ 91,037</u>	<u>\$ 146,515</u>

CITY OF HANCOCK
PARKING METER FUND
BALANCE SHEET

June 30, 2004

With Comparative Totals at June 30, 2003

	<u>2004</u>	<u>2003</u>
ASSETS:		
Current Assets:		
Cash	\$ 1,685	\$ 1,354
Accounts receivable	80	80
Prepaid expenses	604	-
Fixed assets:		
Equipment	30,893	30,893
Less accumulated depreciation & amortization	(30,893)	(30,893)
TOTAL ASSETS	<u>\$ 2,369</u>	<u>\$ 1,434</u>
LIABILITIES:		
Current liabilities:		
Accounts payable	\$ 523	\$ 1,145
Accrued wages payable	719	1,470
Due to other funds	591	2,560
TOTAL LIABILITIES	<u>1,833</u>	<u>5,175</u>
FUND EQUITY:		
Retained earnings	536	(3,741)
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 2,369</u>	<u>\$ 1,434</u>

CITY OF HANCOCK
PARKING METER FUND
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
BUDGET AND ACTUAL
Year Ended June 30, 2004
With Comparative Actual Amounts for Year Ended June 30, 2003

	2004			
	Budget	Actual	Variance- Favorable (Unfavorable)	2003
OPERATING REVENUES:				
Charges for services:				
Collections, permits, fines, etc	\$ 16,400	\$ 16,564	\$ 164	\$ 15,848
EXPENSES:				
General government administration	20,144	19,049	1,095	26,864
OPERATING INCOME(LOSS)	(3,744)	(2,485)	1,259	(11,016)
NON-OPERATING REVENUES (EXPENSES):				
Interest income	20	12	(8)	19
Transfer in	6,750	6,750	-	5,000
TOTAL NON-OPERATING REVENUES (EXPENSES)	6,770	6,762	(8)	5,019
NET INCOME(LOSS)	\$ 3,026	4,277	\$ 1,251	(5,997)
RETAINED EARNINGS(DEFICIT), BEGINNING OF YEAR		(3,741)		2,256
RETAINED EARNINGS(DEFICIT), END OF YEAR		\$ 536		\$ (3,741)

CITY OF HANCOCK
PARKING METER FUND
COMPARATIVE STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2004
With Comparative Actual Amounts for Year Ended June 30, 2003

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income (loss)	\$ (2,485)	\$ (11,016)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	0	0
Operating transfers in (out)	6,750	5,000
Increase (decrease) in accounts payable	(622)	1,085
Increase (decrease) in accrued expenses	(751)	927
Increase (decrease) in due to other funds	(1,969)	2,160
Increase (decrease) in due to other governmental units	0	0
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>319</u>	<u>(1,844)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	<u>12</u>	<u>19</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>12</u>	<u>19</u>
NET INCREASE (DECREASE) IN CASH	331	(1,825)
CASH AT BEGINNING OF YEAR	<u>1,354</u>	<u>3,179</u>
CASH AT END OF YEAR	<u>\$ 1,685</u>	<u>\$ 1,354</u>

CITY OF HANCOCK
SEWER DISPOSAL SYSTEM FUND
BALANCE SHEET
June 30, 2004
With Comparative Totals at June 30, 2003

	<u>2004</u>	<u>2003</u>
ASSETS:		
Current Assets:		
Cash	\$ 37,246	\$ 26,480
Investments	24,654	29,395
Accounts receivable	52,071	48,073
Due from other funds	14,289	-
Inventory	21,788	22,306
Prepaid expenses	4,025	2,875
Restricted assets:		
Investments	104,312	96,464
Cash - bond reserves	6,505	6,455
Cash - redemption fund	6,309	6,304
Fixed assets:		
Utility plant in service	5,759,952	5,747,769
Less accumulated depreciation & amortization	(4,243,474)	(4,139,899)
TOTAL ASSETS	<u>\$ 1,787,677</u>	<u>\$ 1,846,222</u>
LIABILITIES:		
Current liabilities:		
Accounts payable	\$ 268	\$ 1,808
Accrued wages payable	1,819	1,026
Due to other funds	71,127	50,856
Due to other governmental units	26,762	114,708
Current maturities on long-term debt	10,000	10,000
Long-term liabilities:		
Revenue bonds payable	95,000	105,000
TOTAL LIABILITIES	<u>204,976</u>	<u>283,398</u>
FUND EQUITY:		
Contributed capital	1,353,346	1,353,346
Retained earnings	229,355	209,478
TOTAL FUND EQUITY	<u>1,582,701</u>	<u>1,562,824</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 1,787,677</u>	<u>\$ 1,846,222</u>

CITY OF HANCOCK
SEWER DISPOSAL SYSTEM FUND
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
BUDGET AND ACTUAL
Year Ended June 30, 2004
With Comparative Actual Amounts for Year Ended June 30, 2003

	2004			
	Budget	Actual	Variance- Favorable (Unfavorable)	2003
OPERATING REVENUES:				
Charges for services	\$ 642,000	\$ 644,352	\$ 2,352	\$ 583,775
Other revenue	70,800	70,735	(65)	1
TOTAL OPERATING REVENUES	712,800	715,087	2,287	583,776
EXPENSES:				
General government administration:				
General administration	33,590	30,971	2,619	39,453
Meter reading	3,300	3,335	(35)	3,094
Total general government administration	36,890	34,306	2,584	42,547
Operations and maintenance	144,666	101,067	43,599	68,047
City share of Ptg Lake W & S Auth plant exp	510,000	454,035	55,965	461,227
Depreciation	-	103,575	(103,575)	107,832
TOTAL EXPENSES	691,556	692,983	(1,427)	679,653
OPERATING INCOME(LOSS)	21,244	22,104	860	(95,877)
NON-OPERATING REVENUES (EXPENSES):				
Interest income	4,000	3,523	(477)	5,747
Interest expense	(17,427)	(5,750)	11,677	(3,125)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(13,427)	(2,227)	11,200	2,622
NET INCOME(LOSS)	\$ 7,817	19,877	\$ 12,060	(93,255)
RETAINED EARNINGS, BEGINNING OF YEAR		209,478		302,733
RETAINED EARNINGS, END OF YEAR		\$ 229,355		\$ 209,478

CITY OF HANCOCK
SEWER DISPOSAL SYSTEM FUND
COMPARATIVE STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2004
With Comparative Actual Amounts for Year Ended June 30, 2003

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income (loss)	\$ 22,104	\$ (95,877)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	103,575	107,832
(Increase) decrease in accounts receivable	(3,998)	(2,487)
(Increase) decrease in due from other funds	(14,289)	0
(Increase) decrease in inventory	518	(6,091)
(Increase) decrease in prepaid expenses	(1,150)	(2,875)
Increase (decrease) in accounts payable	(1,540)	(21,227)
Increase (decrease) in accrued expenses	793	(1,251)
Increase (decrease) in due to other funds	20,271	(4,464)
Increase (decrease) in due to other governmental units	(87,946)	113,316
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>38,338</u>	<u>86,876</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(3,107)	(16,189)
Purchase of equipment	(12,183)	(50,891)
Interest on investments	<u>3,523</u>	<u>5,747</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(11,767)</u>	<u>(61,333)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest paid on long-term debt	(5,750)	(3,125)
Repayment of long-term debt	<u>(10,000)</u>	<u>(10,000)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>(15,750)</u>	<u>(13,125)</u>
NET INCREASE (DECREASE) IN CASH	10,821	12,418
CASH AT BEGINNING OF YEAR	<u>23,239</u>	<u>26,821</u>
CASH AT END OF YEAR	<u>\$ 50,060</u>	<u>\$ 39,239</u>

CITY OF HANCOCK
WATER SUPPLY SYSTEM FUND
BALANCE SHEET
June 30, 2004
With Comparative Totals at June 30, 2003

	<u>2004</u>	<u>2003</u>
ASSETS:		
Current Assets:		
Cash	\$ 18,278	\$ 18,101
Investments	17,599	17,612
Accounts receivable	41,675	38,445
Due from other funds	9,610	.
Inventory	47,688	82,171
Prepaid expenses	4,582	650
Restricted assets:		
Investments	71,829	68,820
Cash - bond reserves	72,759	72,587
Fixed assets:		
Utility plant in service	5,440,436	5,415,190
Land and land improvements	238,496	238,496
Less accumulated depreciation & amortization	(2,979,612)	(2,874,570)
TOTAL ASSETS	<u><u>\$ 2,983,340</u></u>	<u><u>\$ 3,077,502</u></u>
LIABILITIES:		
Current liabilities:		
Accounts payable	\$ 4,975	\$ 51,371
Accrued interest	(958)	(958)
Accrued wages payable	5,441	2,558
Due to other funds	282,380	223,610
Due to other governmental units	31,806	.
Current maturities on long-term debt	14,000	19,000
Long-term liabilities:		
Revenue bonds payable	1,625,562	1,639,562
TOTAL LIABILITIES	<u><u>1,963,206</u></u>	<u><u>1,935,143</u></u>
FUND EQUITY:		
Contributed capital	569,818	576,308
Retained earnings	450,316	566,051
TOTAL FUND EQUITY	<u><u>1,020,134</u></u>	<u><u>1,142,359</u></u>
TOTAL LIABILITIES AND FUND EQUITY	<u><u>\$ 2,983,340</u></u>	<u><u>\$ 3,077,502</u></u>

CITY OF HANCOCK
WATER SUPPLY SYSTEM FUND
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
BUDGET AND ACTUAL
Year Ended June 30, 2004
With Comparative Actual Amounts for Year Ended June 30, 2003

	2004			
	Budget	Actual	Variance- Favorable (Unfavorable)	2003
OPERATING REVENUES:				
Charges for services	\$ 527,800	\$ 523,310	\$ (4,490)	\$ 532,506
Other revenue	650	643	(7)	2,124
TOTAL OPERATING REVENUES	528,450	523,953	(4,497)	534,630
EXPENSES:				
General government administration:				
General administration	65,366	61,204	4,162	60,337
Purchase of water	175,000	174,259	741	188,334
Operations and maintenance	271,932	235,681	36,251	272,158
Depreciation	-	105,041	(105,041)	104,475
TOTAL EXPENSES	512,298	576,185	(63,887)	625,304
OPERATING INCOME (LOSS)	16,152	(52,230)	(68,382)	(90,673)
NON-OPERATING REVENUES (EXPENSES):				
Interest income	3,000	4,350	1,350	9,019
Interest expense	(80,326)	(74,343)	5,983	(75,175)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(77,326)	(69,993)	7,333	(66,156)
NET INCOME (LOSS)	\$ (61,174)	(122,225)	\$ (61,051)	(156,830)
RETAINED EARNINGS, BEGINNING OF YEAR		566,051		716,391
ADJUSTMENTS TO FUND EQUITY:				
Add depr on F/A acq w/contributed capital		6,490		6,490
RETAINED EARNINGS, END OF YEAR		\$ 450,316		\$ 566,051

CITY OF HANCOCK
WATER SUPPLY SYSTEM FUND
COMPARATIVE STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2004

With Comparative Actual Amounts for Year Ended June 30, 2003

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income (loss)	\$ 52,232	\$ (90,674)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	105,041	104,475
(Increase) decrease in accounts receivable	(3,230)	2,752
(Increase) decrease in due from other funds	9,610	0
(Increase) decrease in prepaid expenses	(3,932)	0
(Increase) decrease in inventory	34,483	(44,401)
Increase (decrease) in accounts payable	(46,396)	13,100
Increase (decrease) in accrued expenses	2,884	(900)
Increase (decrease) in due to other funds	58,770	(900)
Increase (decrease) in due to other governmental units	31,806	127,462
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>117,584</u>	<u>111,814</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(25,246)	(8,702)
Purchase of investments	(2,996)	(7,234)
Interest on investments	4,350	9,019
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(23,892)</u>	<u>(6,917)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest paid on long-term debt	(74,343)	(75,175)
Repayment of long-term debt	(19,000)	(18,000)
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>(93,343)</u>	<u>(93,175)</u>
NET INCREASE (DECREASE) IN CASH	349	11,722
CASH AT BEGINNING OF YEAR	<u>90,688</u>	<u>78,966</u>
CASH AT END OF YEAR	<u>\$ 91,037</u>	<u>\$ 90,688</u>

CITY OF HANCOCK
TRANSIT FUND
BALANCE SHEET
June 30, 2004

	<u>2004</u>	<u>2003</u>
ASSETS:		
Current Assets:		
Cash	\$ 3,733	\$ 853
Accounts receivable	123	-
Due from other governmental units	13,252	-
Prepaid expenses	5,159	2,933
Fixed assets:		
Utility plant in service	89,117	86,116
Less accumulated depreciation & amortization	(30,289)	(12,900)
TOTAL ASSETS	<u>\$ 81,095</u>	<u>\$ 77,002</u>
LIABILITIES:		
Current liabilities:		
Accounts payable	\$ 1,151	\$ 9,087
Accrued wages payable	3,329	3,400
Due to other funds	33,692	17,084
TOTAL LIABILITIES	<u>38,172</u>	<u>29,571</u>
FUND EQUITY:		
Retained earnings	42,923	47,431
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 81,095</u>	<u>\$ 77,002</u>

CITY OF HANCOCK
TRANSIT FUND
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
BUDGET AND ACTUAL
Year Ended June 30, 2004

	2004			
	Budget	Actual	Variance- Favorable (Unfavorable)	2003
OPERATING REVENUES:				
Charges for services	\$ 26,700	\$ 15,151	\$ (11,549)	\$ 7,924
State Grant	71,291	84,543	13,252	130,648
Other revenue	48,198	48,405	207	45,715
TOTAL OPERATING REVENUES	146,189	148,099	1,910	184,287
EXPENSES:				
General government administration:				
General administration	35,146	32,816	2,330	44,833
Operations and maintenance	137,111	116,934	20,177	79,265
Depreciation	-	17,389	(17,389)	12,900
TOTAL EXPENSES	172,257	167,139	5,118	136,998
OPERATING INCOME (LOSS)	(26,068)	(19,040)	7,028	47,289
NON-OPERATING REVENUES (EXPENSES):				
Interest income	35	32	(3)	142
Operating transfers in	14,500	14,500	-	-
TOTAL NON-OPERATING REVENUES (EXPENSES)	14,535	14,532	(3)	142
NET INCOME (LOSS)	\$ (11,533)	(4,508)	\$ 7,025	47,431
RETAINED EARNINGS, BEGINNING OF YEAR		47,431		-
RETAINED EARNINGS, END OF YEAR		\$ 42,923		\$ 47,431

CITY OF HANCOCK
TRANSIT FUND
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2004

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income (loss)	\$ 19,040	\$ 47,289
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	17,389	12,900
Operating transfers in (out)	14,500	0
(Increase) decrease in accounts receivable	(123)	(2,933)
(Increase) decrease in due from other governmental units	(13,252)	(2,933)
(Increase) decrease in prepaid expenses	(2,226)	(2,933)
Increase (decrease) in accounts payable	(7,936)	9,087
Increase (decrease) in accrued expenses	(72)	3,400
Increase (decrease) in due to other funds	16,608	17,084
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>5,848</u>	<u>86,827</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(3,000)	(86,116)
Interest on investments	32	142
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(2,968)</u>	<u>(85,974)</u>
NET INCREASE (DECREASE) IN CASH	2,880	853
CASH AT BEGINNING OF YEAR	<u>853</u>	<u>0</u>
CASH AT END OF YEAR	<u>\$ 3,733</u>	<u>\$ 853</u>

CITY OF HANCOCK
INTERNAL SERVICE FUNDS
COMBINING BALANCE SHEETS

June 30, 2004

With Comparative Totals at June 30, 2003

	Employee Benefit	Motor Vehicle	Totals	
			2004	2003
ASSETS:				
Current Assets:				
Cash	\$ 12,749	\$ 3,834	\$ 16,583	\$ 7,228
Accounts receivable	8,888	1,827	10,715	3,119
Due from other funds	64,824	191,720	256,544	192,813
Inventory	-	12,432	12,432	14,212
Prepaid insurance	39,179	21,503	60,682	60,104
Total current assets	125,640	231,316	356,956	277,476
Fixed assets:				
Equipment	-	1,665,817	1,665,817	1,648,894
Less accumulated depreciation & amortization	-	(1,450,624)	(1,450,624)	(1,381,867)
Total fixed assets	-	215,193	215,193	267,027
Restricted assets:				
Cash	5,452	-	5,452	5,356
TOTAL ASSETS	\$ 131,092	\$ 446,509	\$ 577,601	\$ 549,859
LIABILITIES:				
Current liabilities:				
Accounts payable	\$ 17,719	\$ 14,028	\$ 31,747	\$ 15,461
Accrued sick and vacation	150,165	-	150,165	139,001
Accrued wages payable	8,769	1,231	10,000	6,945
Due to other funds	-	-	-	42,231
Current maturities on long-term debt	-	95,418	95,418	52,677
Total current liabilities	176,653	110,677	287,330	256,315
Long-term liabilities:				
Notes payable	-	45,011	45,011	128,391
TOTAL LIABILITIES	176,653	155,688	332,341	384,706
FUND EQUITY:				
Retained earnings	(45,561)	290,821	245,260	165,153
TOTAL LIABILITIES AND FUND EQUITY	\$ 131,092	\$ 446,509	\$ 577,601	\$ 549,859

CITY OF HANCOCK
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS

June 30, 2004

With Comparative Totals for Year Ended June 30, 2003

	Employee Benefit	Motor Vehicle	Totals	
			2004	2003
OPERATING REVENUES:				
Charges for services	\$ 776,112	\$ 532,339	\$ 1,308,451	\$ 1,197,794
Other revenue	-	3,737	3,737	4,042
TOTAL OPERATING REVENUES	776,112	536,076	1,312,188	1,201,836
EXPENSES:				
Operating expenditures:				
General government administration	930	27,590	28,520	24,593
Garage maintenance	-	100,011	100,011	98,316
Operations and maintenance	-	199,953	199,953	206,565
Depreciation	-	68,757	68,757	66,655
Benefit payments:				
Payroll taxes	112,006	-	112,006	92,561
Retirement plan expense	95,965	-	95,965	107,508
Holiday pay	33,312	-	33,312	30,660
Sick pay/personal leave	39,566	-	39,566	30,918
Vacation pay	74,179	-	74,179	65,593
Workers' compensation insurance	40,882	-	40,882	40,325
Hospitalization insurance	400,958	-	400,958	306,163
Employee life insurance	7,331	-	7,331	7,277
Longevity pay	15,200	-	15,200	14,750
Employee picnic	600	-	600	600
Other	3,616	-	3,616	3,607
TOTAL EXPENSES	824,545	396,311	1,220,856	1,096,091
OPERATING INCOME(LOSS)	(48,433)	139,765	91,332	105,745
NON-OPERATING REVENUES (EXPENSES):				
Gain on sale of assets	-	-	-	1,654
Interest income	378	87	465	581
Interest expense	-	(11,690)	(11,690)	(14,856)
Operating transfers in	-	-	-	30,000
Operating transfers out	-	-	-	(41,612)
TOTAL NON-OPERATING REVENUES (EXPENSES)	378	(11,603)	(11,225)	(24,233)
NET INCOME(LOSS)	(48,055)	128,162	80,107	81,511
RETAINED EARNINGS(DEFICIT), BEGINNING OF YEAR	2,494	162,659	165,153	83,641
RETAINED EARNINGS(DEFICIT), END OF YEAR	\$ (45,561)	\$ 290,821	\$ 245,260	\$ 165,153

CITY OF HANCOCK
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF CASH FLOWS
For the Year Ended June 30, 2004

	Employee Benefit	Motor Vehicle	Totals (Memorandum Only)
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income (loss)	\$ (48,433)	\$ 139,765	\$ 91,332
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	0	68,757	68,757
Operating transfers in (out)	0	0	0
(Increase) decrease in accounts receivable	(8,888)	1,292	(7,596)
(Increase) decrease in due from other funds	0	(99,231)	(99,231)
(Increase) decrease in due from other governmental units	35,500	0	35,500
(Increase) decrease in inventory	0	1,779	1,779
(Increase) decrease in prepaid expenses	504	(1,081)	(577)
Increase (decrease) in accounts payable	13,157	3,129	16,286
Increase (decrease) in accrued expenses	14,267	(48)	14,219
Increase (decrease) in due to other funds	0	(42,231)	(42,231)
NET CASH PROVIDED BY OPERATING ACTIVITIES	6,107	72,131	78,238
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	0	0	0
Purchase of equipment	0	(16,923)	(16,923)
Proceeds from sale of investments	0	0	0
Interest on investments	378	87	465
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	378	(16,836)	(16,458)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from long-term debt	0	0	0
Interest paid on long-term debt	0	(11,690)	(11,690)
Repayment of long-term debt	0	(40,639)	(40,639)
NET CASH PROVIDED BY FINANCING ACTIVITIES	0	(52,329)	(52,329)
NET INCREASE (DECREASE) IN CASH	6,485	(2,966)	9,451
CASH AT BEGINNING OF YEAR	11,716	868	12,584
CASH AT END OF YEAR	\$ 18,201	\$ 3,834	\$ 22,035

CITY OF HANCOCK
EMPLOYEE BENEFIT FUND
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
BUDGET AND ACTUAL
Year Ended June 30, 2004
With Comparative Actual Amounts for Year Ended June 30, 2003

	2004			
	Budget	Actual	Variance- Favorable (Unfavorable)	2003
OPERATING REVENUES:				
Charges for services	\$ 846,141	\$ 776,112	\$ (70,029)	\$ 692,176
EXPENSES:				
General government administration	2,226	930	1,296	275
Benefit payments:				
Payroll taxes	101,258	112,006	(10,748)	92,561
Retirement plan expense	92,500	95,965	(3,465)	107,508
Holiday pay	31,500	33,312	(1,812)	30,660
Sick pay/personal leave	37,000	39,566	(2,566)	30,918
Vacation pay	65,000	74,179	(9,179)	65,593
Workers' compensation insurance	40,000	40,882	(882)	40,325
Hospitalization insurance	398,000	400,958	(2,958)	306,163
Employee life insurance	6,700	7,331	(631)	7,277
Longevity pay	15,200	15,200	-	14,750
Employee picnic	676	600	76	600
Other	4,054	3,616	438	3,607
Total benefit payments	791,888	823,615	(31,727)	699,962
TOTAL EXPENSES	794,114	824,545	(30,432)	700,237
OPERATING INCOME(LOSS)	52,027	(48,433)	(100,460)	(8,061)
NON-OPERATING REVENUES (EXPENSES):				
Interest income	963	378	(585)	511
Operating transfers in	-	-	-	30,000
TOTAL NON-OPERATING REVENUES (EXPENSES)	963	378	(585)	30,511
NET INCOME(LOSS)	\$ 52,990	(48,055)	\$ (101,045)	22,450
RETAINED EARNINGS(DEFICIT), BEGINNING OF YEAR		2,494		(19,956)
RETAINED EARNINGS(DEFICIT), END OF YEAR		\$ (45,561)		\$ 2,494

CITY OF HANCOCK
MOTOR VEHICLE FUND
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
BUDGET AND ACTUAL
Year Ended June 30, 2004
With Comparative Actual Amounts for Year Ended June 30, 2003

	2004			
	Budget	Actual	Variance- Favorable (Unfavorable)	2003
OPERATING REVENUES:				
Charges for services	\$ 534,407	\$ 532,339	\$ (2,068)	\$ 505,618
Other revenue	3,500	3,737	237	4,042
TOTAL OPERATING REVENUES	537,907	536,076	(1,831)	509,660
EXPENSES:				
General government administration	29,655	27,590	2,065	24,319
Garage maintenance	111,371	100,011	11,360	98,316
Operations and maintenance	237,425	199,953	37,472	206,565
Depreciation	-	68,757	(68,757)	66,655
TOTAL EXPENSES	378,451	396,312	(17,860)	395,855
OPERATING INCOME	159,456	139,765	(19,691)	113,805
NON-OPERATING REVENUES (EXPENSES):				
Gain on sale of assets	-	-	-	1,654
Interest income	100	87	(13)	70
Interest expense	(44,000)	(11,690)	32,310	(14,856)
Operating transfers out	-	-	-	(41,612)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(43,900)	(11,603)	32,297	(54,744)
NET INCOME	\$ 115,556	128,162	\$ 12,606	59,061
RETAINED EARNINGS, BEGINNING OF YEAR		162,659		103,598
RETAINED EARNINGS, END OF YEAR		\$ 290,821		\$ 162,659

CITY OF HANCOCK
FIDUCIARY FUNDS
COMBINING BALANCE SHEETS

June 30, 2004

With Comparative Totals at June 30, 2003

	Non-Expendable Trust Fund	Agency Funds		Totals (Memorandum Only)	
	Cemetery Perpetual Care Trust	Agency	Payroll	2004	2003
ASSETS:					
Cash and equivalents:					
Unrestricted	\$ 67,111	\$ 1,572	\$ 28	\$ 68,711	\$ 64,775
Investments:					
Restricted	83,244	-	-	83,244	81,495
TOTAL ASSETS	<u>\$ 150,355</u>	<u>\$ 1,572</u>	<u>\$ 28</u>	<u>\$ 151,955</u>	<u>\$ 146,270</u>
LIABILITIES:					
Accounts payable	\$ -	\$ -	\$ 28	\$ 28	\$ 28
Due to other governmental units	-	1,572	-	1,572	209
TOTAL LIABILITIES	<u>-</u>	<u>1,572</u>	<u>28</u>	<u>1,600</u>	<u>237</u>
FUND EQUITY:					
Fund balance:					
Reserved	150,355	-	-	150,355	146,033
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 150,355</u>	<u>\$ 1,572</u>	<u>\$ 28</u>	<u>\$ 151,955</u>	<u>\$ 146,270</u>

CITY OF HANCOCK
CEMETERY PERPETUAL CARE TRUST FUND
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN RETAINED EARNINGS
BUDGET AND ACTUAL
Year Ended June 30, 2004
With Comparative Actual Amounts for Year Ended June 30, 2003

	2004			
	Budget	Actual	Variance- Favorable (Unfavorable)	2003
OPERATING REVENUES:				
Other revenue	\$ 2,000	\$ 1,425	\$ (575)	\$ 2,925
EXPENSES:				
General government administration	-	-	-	7,000
OPERATING INCOME(LOSS)	2,000	1,425	(575)	(4,075)
NON-OPERATING REVENUES (EXPENSES):				
Interest income	2,200	2,897	697	3,226
NET INCOME(LOSS)	\$ 4,200	4,322	\$ 122	(849)
FUND BALANCE, BEGINNING OF YEAR		146,033		146,882
FUND BALANCE, END OF YEAR		\$ 150,355		\$ 146,033

CITY OF HANCOCK
AGENCY FUNDS
COMBINING STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES
For the Year Ended June 30, 2004

	Balance June 30, 2003	Additions	Deletions	Balance June 30, 2004
AGENCY FUND				
ASSETS:				
Cash	\$ 209	\$ -	\$ (1,363)	\$ 1,572
LIABILITIES:				
Due to other governmental units	\$ 209	\$ -	\$ (1,363)	\$ 1,572
Increase(decrease) in fund equity	-	-	-	-
TOTAL LIABILITIES	\$ 209	\$ -	\$ (1,363)	\$ 1,572
PAYROLL				
ASSETS:				
Cash	\$ 28	\$ -	\$ -	\$ 28
LIABILITIES:				
Accounts payable	\$ 28	\$ -	\$ -	\$ 28
TOTAL - ALL AGENCY FUNDS				
ASSETS:				
Cash	\$ 237	\$ -	\$ (1,363)	\$ 1,600
LIABILITIES:				
Accounts payable	\$ 28	\$ -	\$ -	\$ 28
Due to other governmental units	209	-	(1,363)	1,572
TOTAL LIABILITIES	\$ 237	\$ -	\$ (1,363)	\$ 1,600

SUPPLEMENTAL INFORMATION
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
OPERATING AND NON OPERATING REVENUES
AND REVENUE SUMMARY
For the Year Ended June 30, 2004

<u>OPERATING REVENUES</u>	<u>07/01/03 to 09/30/03</u>	<u>10/01/03 to 06/30/04</u>	<u>Total</u>
Farebox receipts	\$ 2,246	\$ 6,968	\$ 9,214
Bus passes	1,128	4,809	5,937
Other charges	262	10,609	10,871
TOTAL OPERATING REVENUES	\$ 3,636	\$ 22,386	\$ 26,022

<u>NON-OPERATING REVENUES LOCAL</u>	<u>07/01/03 to 09/30/03</u>	<u>10/01/03 to 06/30/04</u>	<u>Total</u>
Contributions and donations	\$ 5,000	\$ 5,000	\$ 10,000
Interest income	10	22	32
TOTAL OPERATING REVENUES	\$ 5,010	\$ 5,022	\$ 10,032

<u>TRANSIT FUND REVENUE SUMMARY</u>	<u>07/01/03 to 06/30/04</u>
OPERATING REVENUES	\$ 26,022
NON-OPERATING REVENUES LOCAL	10,032
STATE OF MICHIGAN GRANTS	84,543
FEDERAL GRANTS	27,534
TOTAL REVENUES TRANSIT FUND	\$ 148,131

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
OPERATING EXPENSES
For the Year Ended June 30, 2004

<u>OPERATING EXPENSES</u>	<u>Operations</u>	<u>Maintenance</u>	<u>General Administration</u>	<u>Total</u>
Labor				
Wages and salaries-operators	\$ 68,886	\$ 5,697	\$ 1,730	\$ 76,313
Other wages and salaries	0	4,418	2,915	7,333
Dispatcher salaries and wages	0	0	1,732	1,732
Fringe benefits	10,328	7,471	4,559	22,358
Services				
Advertising	0	0	40	40
Other	679	0	14,634	15,313
Materials and Supplies Consumed				
Fuel and lubricants	12,613	0	0	12,613
Tires and tubes	197	0	0	197
Major supplies	0	1,379	0	1,379
Other	3,063	855	2,056	5,974
Utilities				
Insurance	3,015	0	3,045	3,045
Operating Lease and Rentals	0	346	293	3,308
			0	346
Miscellaneous expenses				
Travel	2367	0	1,767	4,134
Other	95	0	302	397
Depreciation	17,389	0	0	17,389
TOTAL OPERATING EXPENSES-MDOT	\$ 118,632	\$ 20,166	\$ 33,073	\$ 171,871
RECONCILE TO TRANSIT FUND				
Less: Capitalized expenses	3,001			3,001
Audit year end adjustments/other	4,782	(3,308)	257	1,731
TOTAL OPERATING EXPENSES TRANSIT FUND	\$ 110,849	\$ 23,474	\$ 32,816	\$ 167,139

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
NON OPERATING REVENUES - STATE AND FEDERAL
For the Year Ended June 30, 2004

<u>STATE OF MICHIGAN OPERATING GRANTS</u>		<u>Total</u>
Operating assistance - Act 51 (NOTE 1)		\$ 81,544
State - RTPA		<u>2,999</u>
SUBTOTAL - STATE OF MICHIGAN OPERATING GRANTS		<u>84,543</u>
<u>FEDERAL OPERATING GRANTS</u>		
U.S. DOT Operating Grant - Section 5311, Contract 2003-0224/Z1		12,509
U.S. DOT Operating Grant - Section 5311, Contract 2003-0224/Z3		<u>15,025</u>
SUBTOTAL - FEDERAL OPERATING GRANTS		<u>27,534</u>
TOTAL NON-OPERATING REVENUES - STATE AND FEDERAL		<u>\$ 112,077</u>

NOTE 1

The Operating Assistance Act 51 Revenue includes \$13,252 from MDOT for the fiscal year ending September 30, 2003. The amount was based on the preliminary reconciliation of the quarterly financial data received by MDOT submitted by the City of Hancock for the Transit fund.

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
NET ELIGIBLE COSTS OF GENERAL OPERATING
For the Year Ended June 30, 2004

OPERATING EXPENSES	07/01/03 to 09/30/03	10/01/03 to 06/30/04	Total
Labor			
Wages and salaries-operators	\$ 16,871	\$ 59,442	\$ 76,313
Other salaries and wages	3,394	3,939	7,333
Dispatchers salaries and wages	0	1,732	1,732
Fringe benefits	5,828	16,530	22,358
Services			
Advertising	0	40	40
Other	6,494	8,819	15,313
Materials and supplies			
Fuels and lubricants	2,949	9,664	12,613
Tires and tubes	179	18	197
Major supplies	0	1,379	1,379
Other	1,412	4,562	5,974
Utilities	986	2,059	3,045
Insurance	2,933	375	3,308
Operating Lease and Rentals	22	324	346
Miscellaneous			
Travel	600	3,534	4,134
Other	107	290	397
Depreciation	4,303	13,086	17,389
TOTAL OPERATING EXPENSES	<u>46,078</u>	<u>125,793</u>	<u>171,871</u>
Less Ineligible expenses			
Depreciation	4,303	13,086	17,389
Capitalized equipment		3,001	3,001
Audit year end adjustments		1,731	1,731
RTAP expenses	600	2,334	2,934
TOTAL INELIGIBLE EXPENSES	<u>4,903</u>	<u>20,152</u>	<u>25,055</u>
NET ELIGIBLE EXPENSES	<u>\$ 41,175</u>	<u>\$ 105,641</u>	<u>\$ 146,816</u>

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
COMPUTATION OF STATE AND FEDERAL OPERATING ASSISTANCE
For the Year Ended June 30, 2004

STATE OF MICHIGAN STATUTORY OPERATING ASSISTANCE FOR NON-URBAN AREAS

	<u>07/01/03 to</u> <u>09/30/03</u>	<u>10/01/03 to</u> <u>06/30/04</u>	<u>Total</u>
Total Eligible Expenses	\$ 41,175	\$ 105,641	\$ 146,816
Reimbursement Rate % FYE 9/30/03	42.9321%		
Reimbursement Rate % FYE 9/30/04		42.2366%	
ELIGIBLE STATE OPERATING ASSISTANCE	<u>\$ 17,676</u>	<u>\$ 44,612</u>	<u>\$ 62,289</u>

SECTION 5311 FEDERAL OPERATING ASSISTANCE FOR NON-URBAN AREAS

	<u>07/01/03 to</u> <u>09/30/03</u>	<u>10/01/03 to</u> <u>06/30/04</u>	<u>Total</u>
Total Eligible Expenses	\$ 41,175	\$ 105,621	\$ 146,796
Reimbursement Rate %	10.95%	10.95%	
ELIGIBLE FEDERAL OPERATING ASSISTANCE	<u>\$ 4,509</u>	<u>\$ 11,565</u>	<u>\$ 16,074</u>

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
MILEAGE DATA REPORT (UNAUDITED)
For the Year Ended June 30, 2004

<u>DEMAND RESPONSE -</u> <u>PUBLIC TRANSPORTATION MILES</u>	<u>TOTAL</u>
<u>FOR THE QUARTER ENDING:</u>	
SEPTEMBER 30, 2003 (estimate)	\$ 10,000
DECEMBER 31, 2003	11,223
MARCH 31, 2004	16,082
JUNE 30, 2004	<u>14,973</u>
TOTAL MILES DRIVEN	<u>\$ 52,278</u>



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COMMENTS AND RECOMMENDATIONS LETTER

Honorable Mayor and Members of the City Council
City of Hancock

Hancock, Michigan

In connection with our audit of the financial statements of the City of Hancock, for the year ended June 30, 2004, the following concerns regarding the accounting records, procedures, and internal accounting control structure came to our attention and are presented for your consideration.

Our comments are based upon conditions noted during our audit and are not intended to be all inclusive. These comments are submitted as constructive suggestions to assist you in strengthening controls and procedures.

ACCOUNTING FOR GRANT REVENUES (7th year of repeat)

The City contracts out the administrative work on numerous grants that it receives. On those grants that have been contracted out, the City has not been recording the activity of those grants in its accounting system. We recommend that the City arrange to receive regular financial reports from the contract administrator so that the activity can be recorded in the City's books.

INSURED DEPOSITS

We noted approximately ninety-two percent (92%) of the City's deposits are insured by the Federal Deposit Insurance Corporation (FDIC). We recommend that deposits be extended to various financial institutions to decrease the risk of loss to the City.

GASB 34 (2th year of repeat)

Although the Local Audit and Finance Division of the Michigan Department of Treasury has allowed a reporting exception to the implementation of Governmental Accounting Standards Board Statement No. 34 (GASB 34) for various Michigan local cities and municipalities, we recommend the City adopt the major changes from GASB 34 to comply with GAAP. This requires the City to issue government-wide financial statements based on full accrual accounting. This change will also require the City to place a value on all capital assets, calculate depreciation, record offsetting long-term debt, and report information regarding the net value of assets on the government-wide financial statements.

WATER BOND REQUIREMENTS

The Series 1997 and 1998 Water Supply System Revenue Bonds as issued by the USDA, requires the City to transfer funds equal to ½ of the next interest payment due, plus ¼ of next principal payment due into a separate bond and interest redemption bank account. The amount required as of June 30, 2004 is \$21,945. As of June 30, 2004, the bank balance was \$12,535, equal to a shortage of \$9,410. The City should review the bond debt requirement schedules and transfer the funds to the restricted account to eliminate the deficit.

PUBLIC ACT 621 OF 1978 BUDGET REQUIREMENTS

The City's budget for the year ended June 30, 2004, was substantially in compliance with the requirements of Public Act 621 of 1978. This Act requires that a city must amend its budget when it becomes apparent that the city's actual revenues will deviate from those budgeted, or if the city's expenditures will exceed the amounts appropriated.

During the year ended June 30, 2004, the City incurred expenditures in certain budgetary categories which were in excess of the amounts appropriated as follows:

Description	Total <u>Appropriations</u>	Amount of <u>Expenditures</u>	Budget <u>Variances</u>
GENERAL FUND			
General Administration-Assessor	\$ 24,098	\$ 24,524	\$ (426)
General Administration-Elections	\$ 920	\$ 2,067	\$ (1,147)
General Administration-Accounting	\$ 15,000	\$ 15,065	\$ (65)
Public Safety-Fire	\$ 119,331	\$ 120,297	\$ (966)
Public Works-DPW	\$ 102,126	\$ 107,204	\$ (5,078)
Public Works-Equip rental/street	\$ 67,000	\$ 71,116	\$ (4,116)
Public Works-Sidewalks and curbs	\$ 13,400	\$ 13,932	\$ (532)
Recreation-Campground	\$ 48,000	\$ 49,115	\$ (1,115)
Recreation-Skating Rinks	\$ 7,657	\$ 7,665	\$ (8)
MAJOR STREET FUND			
Traffic services	\$ 5,759	\$ 5,855	\$ (96)
Snow and ice control	\$ 142,553	\$ 143,007	\$ (454)
LOCAL STREET FUND			
Snow and ice control	\$ 191,104	\$ 192,512	\$ (1,408)
CDBG NPP M2000-0657	\$ 0	\$ 124,005	\$ (124,005)
EMPLOYEE BENEFITS FUND			
Payroll taxes	\$ 101,258	\$ 112,006	\$ (10,748)
Retirement plan expense	\$ 92,500	\$ 95,965	\$ (3,465)
Holiday pay	\$ 31,500	\$ 33,312	\$ (1,812)
Sick pay and personal leave	\$ 37,000	\$ 39,566	\$ (2,566)
Vacation pay	\$ 65,000	\$ 74,179	\$ (9,179)
Workers' compensation insurance	\$ 40,000	\$ 40,882	\$ (882)
Hospitalization insurance	\$ 398,000	\$ 400,958	\$ (2,958)
Employee life insurance	\$ 6,700	\$ 7,331	\$ (631)

We recommend that the Council monitor the budget more closely and make amendments as necessary.

PUBLIC ACT 275 OF 1980

The City had a fund balance deficit as of June 30, 2004 in the Local Street Fund and the Employee Benefits Fund in the amount of \$1,336 and \$45,561 respectively.

We recommend that the Council monitor the fund balances of all funds more closely and take steps to avoid such deficits as necessary. In accordance with Public Act 275 of 1980, the City must formulate and file a deficit elimination plan (DEP) with the State Treasurer to correct the deficit situation. This DEP must contain: (1) a copy of current trial balances showing the deficit eliminated; (2) copies of Council resolutions approving operating transfers used to eliminate the deficit; and (3) a projected budget, approved by the Council, itemizing the revenues, expenditures and the changes in the fund balance.

We would like to thank the administrative staff for the excellent cooperation we received during our audit. We appreciate the opportunity to present these comments and recommendations for your consideration and we are prepared to discuss them at your convenience.

This report is intended solely for the use of management and the governmental regulatory agencies and should not be used for any other purposes.

Bruce A. Rukhila, CPA, PC
Certified Public Accountants

September 24, 2004